

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**PROGRAMME: DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS  
PROGRAM IN THE HORN OF AFRICA (DRSLP) - PROJECT II**

**MULTINATIONAL: Eritrea, Ethiopia, Somalia and Sudan**

**PROJECT APPRAISAL REPORT**

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**OSAN**

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## TABLE OF CONTENTS

Currency Equivalent, Fiscal Year, Weight and Measures, Acronyms and Abbreviations, Loan Information, Executive Summary, Result-Based Logframe, Project Timeframe i-viii

<b>I – Strategic Thrust &amp; Rationale .....</b>	<b>1</b>
1.1 Programme linkages with countries and Horn of Africa (HoA) strategies and objectives .....	1
1.2 Aid coordination .....	2
<b>II – Project description .....</b>	<b>3</b>
2.1 Project components .....	3
2.2 Technical solution retained and other alternatives explored.....	5
2.3 Project type .....	6
2.4 Project cost and financing arrangements .....	7
2.5 Project’s target area and population.....	8
2.6 Participatory process for project identification, design and implementation .....	9
2.7 Bank Group experience, lessons reflected in project design .....	9
2.8 Key performance indicators .....	10
<b>III – Project feasibility .....</b>	<b>10</b>
3.1 Economic and financial performance .....	10
3.2 Environmental and Social Impacts .....	11
<b>IV – Implementation.....</b>	<b>14</b>
4.1 Implementation arrangements.....	14
4.2 Monitoring .....	16
4.3 Governance .....	17
4.4 Sustainability.....	17
4.5 Risk management.....	18
4.6 Knowledge building.....	18
<b>V – Legal framework .....</b>	<b>19</b>
5.1 Legal Instruments.....	19
5.2 Conditions associated with Fund’s intervention .....	19
5.3. Compliance with Fund Policies .....	21
<b>VI – Recommendation .....</b>	<b>21</b>

Annex 1: Eritrea, Ethiopia and Somalia and Sudan – Selected Macroeconomic Indicators  
Annex 2: Map of the Program Area: DRSLP – Project II: Eritrea, Ethiopia, Somalia and Sudan  
Annex 3: Economic Analysis  
Annex 4: Financial Analysis  
Annex 5: Fragility Note on DRSLP II

## Currency Equivalents

July 2014

Unit of Account (UA)	Local Currency
1 UA	23.7 ERN (ERITREAN NAKFA)
1 UA	29.66 ETB (ETHIOPIAN BIRR)
1 UA	1409.4 SOS (SOMALI SHILLING)
1 UA	8.8 SDG (SUDANESE POUND)
1 UA	1.53 USD (US DOLLAR)
1 UA	1.12 EUR (EUROPEAN EURO)

## Fiscal Year

Eritrea: Jan. 1<sup>st</sup> – Dec. 31<sup>st</sup>; Ethiopia: July 8<sup>th</sup> – July 7<sup>th</sup>; Somalia: Jan. 1<sup>st</sup> – Dec. 31<sup>st</sup>; Sudan: Oct. 1<sup>st</sup> – Sep. 30<sup>th</sup>

## Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 pounds (lbs)
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (in)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

## Acronyms and Abbreviations

ADF	=	African Development Fund
AfDB	=	African Development Bank
ASAL's	=	Arid and Semi-arid Lands
AU	=	African Union
BADEA	=	Arab Bank for Economic Development in Africa
BMZ	=	German Federal Ministry for Economic Cooperation and Development
CAADP	=	Comprehensive African Agriculture Development Programme
CBOs	=	Community Based Organizations
COMESA	=	Common Market of Eastern and Southern Africa
CSP	=	Country Strategy Paper
CVOs	=	Civil Society Organizations
DRSLP	=	Drought Resilience and Sustainable Livelihood Programme
EA	=	Executing Agency
ECA	=	Economic Commission for Africa
EIRR	=	Economic Internal Rate of Return
ERR	=	Economic Rate of Return
ESA	=	Environmental and Social Assessment
ESAP	=	Environmental and Social Assessment Procedures
ESMF	=	Environmental and Social Management Framework
ESMP	=	Environment and Social Management Plan
ESW	=	Economic Sector Work
EU	=	European Union
FAO	=	Food and Agriculture Organization
FIRR	=	Financial Internal Rate of Return
FM	=	Financial Management
TSF	=	Transition Support Facility
GDP	=	Gross Domestic Product
GEF	=	Global Environment Facility
GIZ	=	German International Cooperation
GNI	=	Gross National Income
HFA	=	Hyogo Framework for Action
HIV/AIDS	=	Human Immunodeficiency Virus Infection / Acquired Immunodeficiency Syndrome
HoA	=	Horn of Africa
HoAI	=	Horn of Africa Initiative

IBAR	=	Inter-African Bureau for Animal Resources
IDPs	=	Internally Displaced People
IFAD	=	International Fund for Agricultural Development
IGA	=	Income Generating Activities
IGAD	=	Intergovernmental Authority on Development
ILRI	=	International Livestock Research Institute
IMF	=	International Monetary Fund
IRR	=	Internal Rate of Return
IsDB	=	Islamic Development Bank
JICA	=	Japan International Cooperation Agency
KfW	=	Reconstruction Credit Institute
LDCF	=	Least Developed Countries Fund
LPI	=	Livestock Policy Initiative
MDGs	=	Millennium Development Goals
M&E	=	Monitoring and Evaluation
MSC	=	Multisectoral Collaborative component
MTR	=	Medium Term Review
NAPA	=	National Adaptation Program of Action
NGO	=	Non-governmental Organization
NPV	=	Net Present Value
NRM	=	Natural Resources Management
OFAG	=	Office of Federal Auditor General
OIE	=	World Organization for Animal Health
P2RS	=	Programme to Build Resilience to Food and Nutrition Security and in the Sahel
PAR	=	Project Appraisal Report
PBA	=	Performance Based Allocation
PEFA	=	Public Expenditure and Financial Accountability
PIU	=	Project Implementation Unit
PCR	=	Project Completion Reporting
PCU	=	Project Coordination Unit
PFM	=	Project Financial Management
PRSP	=	Poverty Reduction Strategy Paper
PSC	=	Project Steering Committee
POs	=	Professional Organizations
RECs	=	Regional Economic Communities
RCMRD	=	Regional Centre for Mapping of Resources for Development
RISP	=	Regional Integration Strategy Paper
RLACC	=	Rural Livelihood's Adaptation to Climate Change
RMC	=	Regional Member Countries
RPG	=	Regional Public Good
SA	=	Special Account
SADC	=	Southern African Development Community
SCCF	=	Special Climate Change Fund
SDC	=	Swiss Development Cooperation
SESA	=	Social and Environmental Strategic Assessment
SomRep	=	Somalia Resilience Programme
SWAP	=	Sector Wide Approach
TADs	=	Trans-boundary animal diseases
UA	=	Unit of Account
UNECA	=	United Nations Economic Commissions for Africa
UNIFEM	=	United Nations Development Fund for Women
USAID	=	United States Agency for International Development
USD	=	United States Dollars
WFP	=	World Food Programme
WHO	=	World Health Organization
WRI	=	World Resources Institute
WVI	=	World Vision International

## Loan Information

### Client's information

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**BORROWERS / GRANTEES** Federal Government of Ethiopia, Government of the State of Eritrea, the Government of Sudan and Somalia

**EXECUTING AGENCIES** Ethiopia (Ministry of Agriculture), Eritrea (Ministry of Agriculture), Somalia and Sudan (Third Party – the Intergovernmental Authority on Development Secretariat).

### Financing Plan, UA million

Country	PBA	TSF Pillar I	RO Window	Total	Government contribution	Total Program
Eritrea (Loan)	0		5	5	1.15	6.15
Eritrea (Grant)	1.5		5	6.5	-	6.50
Ethiopia (Loan)	11.393		17.089	28.482	3.165	31.647
Somalia (Grant)		5	10	15		15.00
Sudan (Grant)		10	10	20	2.37	22.37
<b>Total Program</b>	<b>12.893</b>	<b>15</b>	<b>47.089</b>	<b>74.982</b>	<b>6.685</b>	<b>81.667</b>

\* Somalia is in debt distress and its external debt burden is unsustainable and its external debt continues to accumulate in arrears. The existence of arrears with the International Financial Institutions (IFIs) will limit the scale of their financial assistance in the short-run as well as the full-fledged reengagement in Somalia. In light of these conditions and in accordance with the policy on eligible expenditures which stipulates that 100% financing by the Bank namely: (i) the country's commitment to implement its overall development program and (iii) the country's budget situation and debt level, it is proposed not to require a counterpart funding in order not to impose an extra burden on the public budget.

### ADF key financing information

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Loan	Unit of Account (UA)
Interest type*	Not applicable
Interest rate spread*	Not applicable
Commitment fee*	0.5% per annum on undisbursed loan amount, commencing 120 days after signature of Loan Agreement
Service fees*	0.75 per annum on the principal amount of the loan disbursed and outstanding from time to time
Tenor	30 years
Grace period	10 years
FIRR, NPV (base case)	(20%, NPV \$US 8.49 million)
EIRR (base case)	(23.7%)

*\*if applicable*

### Timeframe - Main Milestones (expected)

Concept Note and Appraisal Mission clearance by OPSCOM	July 2014
Programme approval by the Board	November 2014
Effectiveness	May 2015
Completion	December 2019
Last disbursement	July 2020

## Project Summary

**1. Programme Overview:** The Drought Resilience and Sustainable Livelihoods Program - Project II is the second intervention in a long term Bank Programme to build communities' resilience to drought and Climate Change, improve their livelihood and promote regional integration in the Horn of Africa. Project II aims to scale up the Program interventions in Ethiopia and extend it to Eritrea, Somalia and Sudan. The Project is expected to develop infrastructures for i) water mobilisation and management, and ii) livestock production, health and marketing. It will also build the capacity of the populations and Governments of the region to better cope with the effects of climate change, resources scarcity and conflicts related to resources utilisation. The Project will be implemented in a period of 5 years and its total cost is UA 81.667 million, of which UA 74.982 million is paid by the Bank and the remaining being the respective governments' counterpart contributions.

An estimated 20 million agro-pastoralists affected by drought and land degradation will directly benefit from the project. Other direct beneficiaries include the Governments of the region whose capacities will be strengthened to enhance drought resilience development, natural resources management and shared benefits, and regional integration. Ultimately, the project is expected to increase the income of agro-pastoralists through the improvement of the delivery of livestock related services (animal production and health, rangeland management, marketing, etc.) and the development of irrigation schemes leading to the improvement of livestock parameters (growth rate, carcass weight, milk production and offtake rate) and, the productivity/production of the main crops. The diversification of the sources of livelihood and the mobilization/conservation of water resources as envisioned by the project will reduce the vulnerability of the population to climate change shocks and exposure to inter/intra-community conflicts that arise from competition over access to water sources for livestock. Women and youth will particularly benefit from the project as specific activities (including value addition) will be designed to enhance their economic and social integration/empowerment. Ultimately, these expected outcomes are expected to contribute to fostering peace and social resilience within the project communities and countries.

**2. Needs assessment:** In 2008, the Bank commissioned a regional study on Sustainable Livestock Development (SLD) in the Horn of Africa (HoA). The Bank also conducted Mapping, Assessment and Management of Trans-boundary Water Resources in the IGAD Sub-Region in 2011 with IGAD and "*Observatoire du Sahara et du Sahel*". During this field work, extensive consultation took place with Government Officials, non-Government institutions and beneficiary communities to appreciate the needs and their prioritization. Based on these assessments, the Bank designed a 15-20 years multi-phased regional Drought Resilience and Sustainable Livelihood Program (DRSLP) to address the root causes of the drought crisis (which drives the fragility of the region), through a comprehensive and integrated list of interventions that fit into the following areas: (i) Support to infrastructure for water resources mobilization and management; (ii) Support to infrastructure for agricultural development (with an emphasis on livestock); and (iii) Support to transport and sub-national and regional trade; and (iv) Support to complementary capacity building and income diversifying activities. This consultative and participatory approach in the project formulation continued throughout the Project II preparation and appraisal.

Grassroots-level consultations, involving project beneficiaries were carried out during the project's preparation phases. This participatory approach is already taking place in DRSLP I and will be fostered during the implementation of DRSLP II. Beneficiaries, through their representatives, will be members of the project steering committee and closely associated to the monitoring and evaluation process. Furthermore, capacities of beneficiaries associations will be strengthened in the management and maintenance of community infrastructures.

**3. Value added for the African Development Bank:** The Bank has significant experience in implementing multinational and regional operations including projects with SADC, COMESA and the AUC. Likewise, the Bank is in the process of carrying out Transport Master Plan for the IGAD region. The Bank in the past has also supported other drought related projects in the arid and semi-arid lands (ASAL) of Djibouti, Kenya, and Ethiopia. It also financed in the past a number of emergency interventions such as droughts, floods, locus invasion, etc. in an ad hoc and on a country by country basis. More recently, in December 2012, the Bank approved DRSLP I of the Program involving the IGAD Secretariat, Djibouti, Ethiopia and Kenya for a total of UA 83.11 million. DRSLP I is under implementation and has generated important technical and management related information which were incorporated in the design of the DRSLP - Project II. The Bank also has a good track record in the development of rural infrastructures. Over decades, most interventions to address the drought in the HoA have been of the short term emergency humanitarian relief nature. The project under review endeavors to be innovative as it proposes solutions to tackle this issue in a medium to long term perspective and through a multi-sectoral approach.

**4. Knowledge Management:** By adopting a regional approach backed up by a solid coordination, critical mass of knowledge will be mobilised and shared. This will enhance cross-border learning and prepare the countries to better cope with drought build their resilience and better manage shared natural resources (such as water and grazing land). In this regard, the Bank, working with IGAD, will promote the creation of thematic platforms to gather, manage and disseminate knowledge within the region and beyond. The programme will also link up with other similar national and regional initiatives in drought resilience such as the Programme to Build Resilience to Food and Nutrition Insecurity in the Sahel (P2RS) to share knowledge on drought resilience and promote its dissemination. Knowledge dissemination and sharing activities will target drought prone communities, Government and non-Government entities and other actors in the area of drought resilience through national, regional and international networks and via multimedia and other information technology tools. The implementation of DRSLP will also benefit from the findings and recommendations of a number of fragility assessments (national and regional) being undertaken by the Bank.

## RESULT-BASED LOGFRAME

<b>Program Location and Name:</b>		<b>The Horn of Africa: Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa. (DRSLP II)</b>				
<b>Purpose of the Program:</b>		<b>To enhance drought resilience and improve sustainable livelihoods of the pastoral and agro-pastoral communities.</b>				
<b>Results chain</b>		<b>Performance indicators</b>			<b>Means of verification</b>	<b>Risks/mitigation measures and assumptions</b>
		<b>Indicators (including CSI)</b>	<b>Baseline</b>	<b>Target (2019)</b>		
<b>Impact</b>	Resilience to drought enhanced	Population affected by drought based on socio-economic and nutritional data (Gender disaggregated)	20 million in 2011 (out of which 50% are women)	Reduced by 30%	Government/ Programs / reports, UN Statistics	<u>Assumption 1</u> : No major conflicts or political instability in the HOA region during Programme implementation  <u>Assumption 2</u> : No extreme weather conditions (severe drought or flood)
		Loss in agricultural productivity	5% of agriculture GDP	2% of agricultural GDP		
<b>Outcomes</b>	1. Improved agriculture and livestock productivity and production	1.1 Productivity of the basic crops 1.2 Productivity of livestock: i) off-take rate, ii) carcass weight, iii) milk production	1.1 1.7 to 2.8 T/ ha 1.2 <u>Beef meat</u> 10.4 kg / animal / year; <u>Cattle milk</u> : 395.8 kg / animal / year; <u>Sheep &amp; Goat meat</u> : 3.5 kg /animal/ year	1.1 Increase by 25% 1.2 Increase by 25%	Government/ Programs (PCUs IGAD) reports, and surveys	<u>Risk 1</u> : Insecurity and conflicts in the region for natural resources access (water, pasturage). <u>Mitigation1</u> : IGAD and the participating countries have put in place conflict resolution mechanisms  <u>Risk2</u> : Women's involvement in the program may be reduced due to the resistance in the community <u>Mitigation2</u> : Clearly identify the potential obstacles to gender equality and to develop an integrated and tailored approach.  <u>Risk3</u> : Environmental degradation and climate change could undermine the project effectiveness. <u>Mitigation3</u> : Inclusion of sustainable management of natural resources and alternative livelihoods.  <u>Risk4</u> : The fragility status of 3 countries out of the 4 participating ones could undermine the regional benefit of the program <u>Mitigation 4</u> : The program will be resorting to a third party to bear the implementation and financial responsibilities of the program in Sudan and Somalia so that it will not hold back the overall program implementation
	2. Improved access to natural resources	2.1 Distance to the nearest water point 2.2 Livestock carrying capacity 2.3 Inter/intra-community conflict over water and grazing land resources	2.1 25 km 2.2 5 ha/LU 2.3 TBD (survey)	2.1 15 km 2.2 3 ha/LU 2.3 Reduced by 30%		
	3. Livelihoods sources diversified	3.1 Households adopting livelihoods that encourage value addition  3.2 Percentage of alternative livelihoods in households revenue  3.3 Percentage increase of income	3.1 5% of the households  3.2 TBD (survey)  3.3 TBD (survey)	3.1 25% of the households (including women headed households) 3.2 Increase by 20%  3.3 25%		

Result chain		Performance indicators		Means of verification	Risks/mitigation measures and assumptions
		Indicators (including CSI)	Target (2019)		
Outputs	<b>Comp 1: Natural Resource Management</b> 1.1. Water resources mobilization improved 1.2. Sustainable land management enhanced 1.3. Access to natural resources improved  1.4. Improved women's participation and decision making skills in water resource management	1.1 Water infrastructures constructed/rehabilitated: i) Masonry check dams (No); ii) borehole with ancillary structures (No); iii) irrigation scheme (Ha); iv) water ponds/ pan/baleys haffirs (No); v) underground water tank/ sand dam (No); vi) pump-based water supply system from rivers (No); (vii) spring development with distribution system (No); viii) spring development without distribution system (No); ix) shallow well (No); x) hand dug well (No); xi) Cisterns/ birkas (No) 1.2 i) Livestock carrying capacity; ii) Rangeland rehabilitated (ha); iii) area protected by soil and water conservation infrastructures constructed/rehabilitated; iv) Nb of soil conservation infrastructure constructed/rehabilitated; 1.3 i) No of innovative mechanisms to secure access to drought prone communities implemented (by IGAD); ii) No of best practices in conflict management implemented (by IGAD); 1.4 Rate of participation of women in water management committee	1.1 i) 30; ii) 46 ; iii) 2150 ha ; iv) 112 ; v) 55 ; vi) 15 ; vii) 9 ; viii) 50 ; ix) 55 ; x) 22 ; xi) 16 1.2 i) 3ha/LU; ii) 280,000 ha ; iii) 3200 Ha; iv) ; 150  1.3 i) 2; ii) 2  1.4 30%	Quarterly progress reports , MTR and PCR and other government reports	<p><u>Risk:</u> Limited technical and managerial capacities of the communities may jeopardize the sustainability of the investments made <u>Mitigation:</u> DRSLP will strengthen the communities based on maintenance system through mobilisation, sensitization and training with emphasis on women and the youth.</p> <p><u>Risk:</u> inadequate coordination monitoring and weak reporting mechanism <u>Risk:</u> Inadequate institutional capacity <u>Mitigation:</u> Capacity building for IGAD (in DRSLP I) and the participating countries. Lessons learnt on DRSLP I to be integrated in the implementation of DRSLP II.</p> <p><u>Risk:</u> In South Central Somalia insecurity could prevent necessary supervision and accessibility of project sites (Government institutions) <u>Mitigation:</u> The Federal Government of Somalia is currently taking measures to address security challenges in Mogadishu with the help of the International Community. It is also expected that the project will contribute to fostering peace among conflicting communities.</p>
	<b>Component 2: Market access and trade</b> 2.1. Market support infrastructure and information system developed  2.2. Gender sensitive value chain development enhanced 2.3. livestock mobility and trade in livestock and livestock products improved	2.1 i) Feeder roads (Km); ii) Crop markets (No); iii) Livestock market (No); iv) Holding grounds (Ha); v) Stock routes (km); vi) Slaughter houses (No), vii) Market information systems developed (No) 2.2 i) Nb of agro-processing units developed and distributed to women; ii) Nb of milk processing equipment, iii) training of communities and government staff in value chain development 2.3 Nb of workshops and trainings in livestock mobility and trade development organized	2.1 i) 360 Km ; ii) 26 ; iii) 14; iv) 28 ; v) 32,000 Km; vi) 5  2.2 i) 50 ; ii) 1 ; iii) 10  2.3 i) 5; ii) 5; iii) 5; iv) 5		
	<b>Component 3: Livelihoods support</b> 3.1. livestock production and health enhanced 3.2. Food and Feed production improved 3.3. Livelihood diversification enhanced	3.1 Nb of animal health related infrastructures constructed, rehabilitated and/or equipped: i) animal health centers and clinics; ii) veterinary labs, iii) Quarantine station; iv) Check points; v) Mobile clinics; vi) Breeding centers 3.2 Quantity of drought tolerant seeds / plant of: i) forage and ii) crops species produced and distributed 3.3 Nb of beneficiaries of alternative livelihoods activities: (i) Nb of package of drip irrigation material distributed (women and youth); (ii) Nb of livestock packages distributed to women;	3.1 i) 23 ; ii) 7 ; iii) 12 ; iv) 24 ; v) 8 ; vi) 2  3.2 i) 3; ii) 3  3.3 i) 2000 ; ii) 3000		
	<b>Component 4: Programme Management and capacity building</b> 4.1. Management entities established 4.2. Project implementation expedited 4.3. Timely project reporting respected 4.4. Stakeholders capacitated 4.5. Gender responsiveness enhanced	For each participating country: 4.1 Nb of: i) annual and quarterly progress reports; ii) audit reports, iii) MTR report, and iv) PCR report delivered in a timely manner 4.2 M&E system developed and implemented 4.3 ESMP / ESMF designed and implemented 4.4 Nb. of staff and communities/stakeholders trained in various thematic areas 4.5 Nb. of gender sensitive: i) knowledge products and ii) planning tools	4.1 i) 20 ; ii) 5; iii) 1; iv) 1 4.2 1 4.3 1 4.4 10 000 4.5 i) 12 ; ii) 8		
Key Activities	<b>Component 1: Natural Resource Management</b> <b>Component 2: Market access and trade</b> <b>Component 3: Livelihoods support</b> <b>Component 4: Programme Management and capacity building</b>		<b>DRSLP II Cost:</b> UA 81.667 million <b>ADF Grant<sup>1</sup>:</b> UA 41,5 million <b>ADF Loan<sup>1</sup>:</b> UA 33,482 million <b>Governments:</b> : 6.685 million <sup>1</sup> Considering Eritrea as 50% loan and 50% grant		

## DRSLP II IMPLEMENTATION SCHEDULE

Year	2014				2015				2016				2017				2018				2019				2020			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>Initial Activities</b>																												
Appraisal			■																									
Loan and Grant negotiations and approval			■	■																								
Signature of loan agreement and fulfilment of first disbursement conditions					■																							
Publication of the General Procurement Notice						■																						
Recruitment of project staff						■	■																					
Project Launching						■																						
Procurement of property goods works and services for the PIUs / PCUs								■	■	■	■																	
Signature of agreements with partner entities						■	■																					
<b>Natural Resources Management</b>																												
Award of contracts for the conduct of studies									■	■																		
Studies RFPs and bidding documents (BDs) preparation									■	■																		
Award of contracts for the construction of infrastructure									■	■																		
Award of contracts for the procurement of goods							■	■																				
Sensitisation and training of beneficiaries and communities on a number of issues, including on conflict management approaches							■	■	■	■	■	■																
Construction infrastructure/management committee												■	■	■	■	■	■	■	■									
<b>Market Access And Trade</b>																												
Award of contracts for the conduct of studies									■	■																		
Studies RFPs and bidding documents (BDs)preparation									■	■																		
Award of contracts for the construction of infrastructure									■	■																		
Award of contracts for the procurement of goods								■																				
Sensitisation and training of beneficiaries and communities								■	■	■	■	■	■															
Construction of infrastructure /management committee												■	■	■	■	■	■	■	■									
<b>Livelihood Support</b>																												
Award of contracts for the conduct of studies									■	■																		
Studies RFPs and bidding documents (BDs )preparation									■	■																		
Award of contracts for the construction of infrastructure									■	■																		
Award of contracts for the procurement of goods									■																			
Sensitisation and training of beneficiaries and communities									■	■	■	■	■	■														
Construction of infrastructure /management committee												■	■	■	■	■	■	■	■									
Award of contracts for the conduct of studies												■	■	■	■	■												
<b>Project Mangement And Capacity Building</b>																												
Establishment of accounting system and preparation of procedures manual									■																			
Establishment of the baseline situation and the M&E system									■	■																		
Management, monitoring and evaluation and communication activities									■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Capacity building interventions including on insitution- and resilience-building systems									■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Annual financial auditing												■														■		■
Mid-term review																												
Completion report																											■	

# **REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE BANK GROUP TO THE BOARDS OF DIRECTORS ON A PROPOSED LOAN AND GRANT TO ERITREA, ETHIOPIA, SOMALIA AND SUDAN FOR THE DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAM (PROJECT II)**

Management submits the following Report and Recommendation on proposed loans/grants for UA 74.982 million to finance the DRSLP (Project II) of the Drought Resilience and Sustainable Livelihoods Programme in Eritrea, Ethiopia, Somalia and Sudan.

## **I – Strategic Thrust & Rationale**

### ***1.1 Programme linkages with countries and Horn of Africa (HoA) strategies and objectives***

1.1.1 The Program is consistent with the principles of key sub-regional and national initiatives, policies and programmes, adopted by the governments of the participating countries over the last few years, namely (i) The Inter-Governmental Authority on Development (IGAD) Drought Disaster Resilience and Sustainability Initiative (IDDRSI) Regional Programming Paper (2013); (ii) the IGAD member Countries’ Programming Papers (CPPs) “To End Drought emergencies in The Horn of Africa” (2012); (iii) Comprehensive Africa Agriculture Development Programme (CAADP); (iv) The IGAD ‘Minimum Integration Plan’, which focuses on joint use and management of water resources for food security; (v) the Livestock Policy Initiative (IGAD-LPI), (vi) The Hyogo Framework for Action (HFA) (2005-15), which contains the collective commitment of governments and the United Nations to work towards reducing societal vulnerability to disasters generally and stop drought in particular, and (vi) the National Development Strategies of the countries involved. The programme is also in line with the Bank’s Regional Integration Strategy for Eastern Africa (2011-15, namely its Regional Infrastructure and Capacity building pillars as the project will put in place structures to supply water for irrigation, livestock and humans which will reduce conflict over these resources, rural roads to ease transport of produce in the countries and across the border, as well as agro-processing for value addition and increased shelf-life thus improving regional trade. The program also fits in the Bank’s new Regional Integration Strategy and Policy Paper (2014-2023); and participating Countries’ CSPs - Eritrea I-CSP (2014-16), Ethiopia CSP (2011-15), Djibouti CSP (2011-15) and its mid-term review, Somalia Country Brief (2013-15) and its addendum, and Sudan Country Brief (2014-16).

1.1.2 The program is also in line with the Bank’s Ten Years Strategy (2013-22; namely its twin strategic objectives of inclusive growth and transition towards green growth, four of its operational focus - infrastructure development, regional integration, skills and technology, and private sector development - as well as its three areas of special emphasis - agriculture and food security, fragile states and gender. It also aligns with the two pillars of the Bank’s Agriculture Sector Strategy (AgSS 2010-14, namely ‘Development of Agricultural Infrastructure and Promotion of Renewable Natural Resources’); the Bank’s Strategy for Addressing Fragility and Building Resilience (2014-19) – especially on building state capacity and effective institutions, and promoting resilience through inclusive access to natural resources; and the Bank’s Gender Strategy (2014-18; namely its economic empowerment and knowledge and capacity building pillars).

## **1.2 Rationale for Bank's involvement**

1.2.1 Incidences of drought in the Horn of Africa (HoA) have been recently increasing in both severity and frequency, leaving over 20 million people in Djibouti, Eritrea, Ethiopia, Kenya, Somalia and Sudan in dire need of urgent humanitarian assistance. To address this issue in a sustainable manner, the Bank commissioned in 2008, a regional study on Sustainable Livestock Development (SLD) in the HoA. The Study observed that, as a result of serious degradation of natural resources due to overuse and climate change, conflicts among communities in many parts of the Greater Horn of Africa (GHA) occur as communities compete for increasingly scarce resources, within and across countries. As majority of these communities are nomads who do not respect national or subnational borders and thus move easily across the borders to neighboring countries in search of mainly water and pasture, developing resources in one country would attract communities across the border, hence fueling conflict. Against this backdrop, developing and ensuring resources availability equally in neighbouring countries and communities is an important act of conflict resolution. It is on this understanding that the DRSLP has been conceptualized as a Regional Operation.

1.2.2 The study report, delivered in 2010, thus recommended investment in the areas of water resources infrastructure; infrastructure for agriculture production and marketing; capacity building of government personnel and communities; and conflict resolution and peace building. The Bank also conducted Mapping, Assessment & Management of Trans-boundary Water Resources in the IGAD Sub-Region Project” in 2011 with IGAD and “Observatoire du Sahara et du Sahel”. Building on these studies, the Bank developed a multi-phase Drought Resilience and Sustainable Livelihoods Program for which US\$ 300 million were pledged. The Drought Resilience and Sustainable Livelihoods Program (DRSLP - I), was prepared and approved by the Board on 12 December 2012. It is being implemented in Ethiopia, Djibouti, Kenya and the IGAD Secretariat. The second call under DRSLP – Project II aims to scale up its intervention in Ethiopia and extend it to Eritrea, Somalia and Sudan.

1.2.3 Over decades, most interventions to address the drought issue in the HOA have been of emergency humanitarian relief nature. The project under review seeks to be innovative as it proposes solutions to tackle this issue in a medium and long term perspective, through an integrated approach that aims at improving water resource mobilization, rangeland management, livelihoods diversification, infrastructure for market access and building human and institutional capacity within a framework that is sensitive to conflict resolution and management. The Bank's long standing experience in the design and implementation of drought resilience and water infrastructure development was capitalized and mainstreamed in the design of this project.

## **1.3 Aid coordination**

1.3.1 Regional and International organizations (UN, AU/IBAR, AfDB, the World Bank, Arab Fund for Economic and Social Development, IsDB, BADEA, IFAD, FAO, WFP, ECA etc.), international NGOs (SomRep, Terra Nova, WRI, Red Cross, to name few), regional livestock and pastoralist associations, Universities, and Bilateral Donors (German Cooperation KfW/GIZ, USAID, Italian Development Corporation, Swiss Development Cooperation) are engaged in addressing drought and livelihood challenges in the region. However, it's noteworthy to mention

that in general most Development Partners’ (DPs) interventions are mostly short-term response and humanitarian-focused relief. Coordination among donors has been weak but this is changing as many DPs are making efforts to consult with others when preparing their own interventions. The Bank has consulted widely with these partners during preparation of DRSLP – I and II to ensure that there is no duplication of efforts, and its own intervention complements those of others. In addition, a number of bilateral and multilateral donors and development partners consultative meetings has been organized by IGAD Secretariat under “The Horn of Africa Disaster Resilience and Sustainability Initiative: Ending Drought and Emergencies in the IGAD region” with the objective of forging a common understanding of the Initiative and effective and efficient coordination platform, and also the funding arrangements for the Initiative. The Bank took part in all those meetings and, as the leading development institution of the Continent, has taken the lead in addressing the issue of drought as a driver of fragility within the HoA region.

1.3.2 The Bank is currently in discussion with several of these partners to garner support for the program under parallel financing arrangements. In particular, the Bank is supporting Kenya, Djibouti, and Somalia to access GEF funds from the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) in order to finance the Rural Livelihood’s Adaptation to Climate Change (RLACC) activities to complement the DRSLP as the baseline program (USD 7,955,560 for Djibouti and Kenya under the DRSLP - Project II and USD 18,865,000 for Somalia and Sudan under the DRSLP - Project II. The Bank is also discussing with SDC (Swiss Development and Cooperation Agency) to secure USD 5 million parallel financing for the Somalia component of DRSLP - Project II (Donor Coordination details for each participating country are discussed in the Technical Annexes under country reports).

## II – Project description

Project development goal: enhance drought resilience and improve sustainable livelihoods of agro-pastoral communities in the Horn of Africa region.

### 2.1 *Project components*

*Table 2.1: Project components\**

Nr.	Component name	Cost (x1000 UA)	Component description
1	<b>Natural Resources Management</b>	30,668	<p><u>SC 1.1: Water resources development</u></p> <ul style="list-style-type: none"> <li>• Holistic mapping of water resources and users (sex disaggregated) for investment use to support human, livestock &amp; agriculture needs;</li> <li>• Feasibility studies &amp; detailed designs for the construction/ rehabilitation of gender-sensitive water supply infrastructures;</li> <li>• Establishment and capacity building of water-user committees for a sustainable management of water and infrastructure with the inclusion of 30% women in leadership positions;</li> <li>• Construction/Rehabilitation of water supply infrastructures: Masonry check dams, Water ponds/pan/baleys/haffirs (20,000 m<sup>3</sup>), Borehole (150-400 m) with ancillaries structures (pipes, troughs, water kiosks, etc.), Sand dams/ underground water tanks, Spring development (with or without distribution system), Shallow well (30-100 m), Hand dug well (&lt;30 m), Cistern (Birkas), irrigation schemes (by gravity), small pumps and Drip irrigation material;</li> <li>• Supervision of construction/ rehabilitation of works.</li> </ul> <p><u>SC 1.2: Sustainable land management</u></p>

			<ul style="list-style-type: none"> <li>• Identification of best practices, dissemination and training of agro-pastoralists in rangeland rehabilitation and management techniques ensuring the appropriate participation of women and youth;</li> <li>• Establish sustainably managed fodder/seed banks to enhance and stabilize pastoral production;</li> <li>• Rangeland rehabilitation (catchment management) and development (trees and shrub planting, reseeding, invasive plants control, water and soil conservation, etc.);</li> <li>• Identification and promotion of adapted and energy-efficient technologies as an alternative to fire wood.</li> </ul> <p><u>SC 1.3: Securing access to natural resources</u></p> <ul style="list-style-type: none"> <li>• Identify and strengthen (dialogue&amp; training) innovative mechanisms and institutions to secure access to drought prone communities that involves empowerment/buy-in of communities and is cognizant of the engendered exposure to risk (to be implemented by IGAD);</li> <li>• Share regional best practices on conflict management with other IGAD countries (to be implemented by IGAD);</li> <li>• Identify the hotspots of conflicts due to the access to natural resources and support local conflict resolution mechanisms.</li> </ul>
2	<b>Component 2: Market Access and Trade</b>	15,697	<p><u>SC 2.1: Market support infrastructure and information system</u></p> <ul style="list-style-type: none"> <li>• Feasibility studies &amp; detailed designs for the construction/rehabilitation of market infrastructure (Primary and secondary markets, Veterinary Laboratories, Quarantine stations, check points) and feeder roads;</li> <li>• Construction/rehabilitation of market support infrastructure (with equipment) &amp; rehabilitation of feeder roads (with ancillary structures);</li> <li>• Establishing and operating a market information system at the sub-national level and promoting linkages with the national system.</li> </ul> <p><u>SC 2.2: Development of livestock marketing support and value chain development</u></p> <ul style="list-style-type: none"> <li>• Upgrading the capacity of Animal Product Quality Control Laboratories along with equipment and training; Equipping Quarantine Stations;</li> <li>• Building hygienic slaughters house facilities and establishing quarantine stations;</li> <li>• Conducting gender sensitive gap analysis of value chains.</li> </ul> <p><u>SC 2.3 Improving livestock mobility and trade and livestock products</u></p> <ul style="list-style-type: none"> <li>• Harmonization of regional trade policies that ameliorate women's economic participation and alignment with national policies and regulations including SPS and other trade facilitating tools (IGAD);</li> <li>• Capacity building of public &amp; private sector on policies and regulatory requirements through information dissemination and training; ensuring the appropriate sensitization to products encouraged through Component 3.</li> </ul>
3	<b>Livelihoods support</b>	18,059	<p><u>SC 3.1: Livestock production and health</u></p> <ul style="list-style-type: none"> <li>• Establishment and strengthening of Community Animal Health Workers Service (CAHWS);</li> <li>• Support the production of vaccines for major livestock diseases through the physical upgrading and equipment of specialized units;</li> <li>• Provision of Tsetse fly suppression drugs, insecticides and other equipment;</li> <li>• Strengthening and capacitating the existing regional breeding centers;</li> <li>• Strengthening regional laboratories with equipment;</li> <li>• Strengthening veterinary clinics with equipment and transport facilities (motorcycles);</li> <li>• Strengthening Veterinary posts with equipment;</li> <li>• Harmonization and coordination of vaccination programs to control for</li> </ul>

			<p>trans-boundary livestock diseases (IGAD).</p> <p><u>SC 3.2: Food and Feed production</u></p> <ul style="list-style-type: none"> <li>• Establish tree, forage, seed, and high value crops multiplication sites (nurseries);</li> <li>• Introduce, promote and ensure equal access to the use of drought tolerant species and high value crop varieties.</li> </ul> <p><u>SC 3.3: Livelihood diversification</u></p> <ul style="list-style-type: none"> <li>• Design &amp; implement in kind credit for women to engage in livestock activities including pass-on modalities;</li> <li>• Provision of inputs to women for agricultural and livestock related products and marketing;</li> <li>• Provision of inputs for non-agricultural income diversifying activities.</li> </ul>
4	<b>Project Management and capacity building</b>	17,243	<p><u>SC 4.1: Capacity building</u></p> <ul style="list-style-type: none"> <li>• Training of Water user Committees (masonry check dams, Borehole, spring, shallow well, hand dug wells, irrigation schemes, etc.);</li> <li>• Training in NRM Government staff and Communities;</li> <li>• Training of pastoralist and agro-pastoralists and other relevant actors of the value chain in business, financial literacy and development of market niches with particular attention to women and youth;</li> <li>• Training of Government staff and Communities on rural roads maintenance;</li> <li>• Training of Government staff on programming of gender issues into pastoral/agriculture/rural development;</li> <li>• Training and experience sharing sessions on livestock disease identification, and control for veterinarian and field technicians;</li> <li>• Training pastoralists and agro-pastoralists in improved animal husbandry and crop production adapted to pastoralism;</li> <li>• Trainings of extension personnel and community leaders in gender sensitive and innovative approaches in foods and fodder production;</li> <li>• Training of women on value addition methods for improved horticultural and agricultural livestock production and marketing;</li> <li>• Training on conflict management at local levels with regards to resource scarcity; Capacity building of the MEF-MoA to address the requirements of the SESA including compliance, monitoring and evaluation;</li> <li>• Awareness and communication including an inception workshop for SESA validation.</li> </ul> <p><u>SC 4.2: Project management</u></p> <ul style="list-style-type: none"> <li>• Equipment &amp; Personnel;</li> <li>• Operating and maintaining project assets and investments;</li> <li>• Coordination activities at the national and regional level in collaboration with IGAD;</li> <li>• Undertake baseline survey and final study and establish and implement M&amp;E system;</li> <li>• Undertake all fiduciary activities (Audit, Procurement, Financial Management and Disbursement) taking into consideration the fragility contexts of 3 the participating countries.</li> </ul>

\* Activities specific to participating countries are presented in the Technical Annexes

## 2.2 Technical solution retained and other alternatives explored

2.2.1 The pastoral and agro-pastoral areas of the Program are experiencing reduced and unpredictable rainfall patterns with increasing frequency of extreme weather events (droughts and floods). These conditions adversely affect natural resources and dependent pastoral and agro-pastoral production systems. The resilience of the communities and production systems is at

the cross-road of inter-linked bio-physical, socio-economic and institutional elements in the pastoral and agro-pastoral ecosystems. The solutions proposed by the project intend to be multi-sectoral and multi-institutional and to promote the necessary institutional set up that is conducive to the adoption of the proposed technical solutions by the different stakeholders. The proposed holistic interventions involve activities that address water, pasture, market, animal health, conflict resolution, capacity building and knowledge management in a gender sensitive approach.

*Table 2.2: project alternatives considered and reasons for rejection*

<b>Alternative name</b>	<b>Brief description</b>	<b>Reasons for rejection</b>
Construction of multipurpose (human, agriculture, livestock) water infrastructure, such as medium and large dams	Building strategically located dams to ensure sufficient water availability for agro-pastoral communities in drought prone areas.	<ul style="list-style-type: none"> <li>• Needs are scattered throughout the landscape</li> <li>• Smaller and well sited structures are more appropriate for water mobilisation and utilisation by humans and livestock under erratic rainfall patterns</li> <li>• Lack of reliable hydrological data to help reasoning relevant siting of the large investments</li> <li>• Weak institutional (government and non-government) capacity to sustainably managing large water structures by communities</li> <li>• High capital investment and operating costs</li> <li>• Potential negative environmental and social impacts</li> </ul>
Increase significantly the number of groundwater mobilisation points	Establishing significant number of new water sources points including boreholes, shallow wells, and small earth dams to improve access to water, particularly during the long dry seasons.	<ul style="list-style-type: none"> <li>• Potential creation of overgrazing and / or new settlements and appropriation</li> <li>• Lack of reliable data on the underground water resources</li> <li>• Risk of salinization due to sea water intrusion</li> <li>• These structures are demanding in terms of operation and maintenance</li> </ul>
Develop livestock sector, the mainstay of the economy, through a single sector approach	Implement the project activities by concentrating on the improvement of animal health and livestock trade so that resources allocation and management are more focused and efficient	<ul style="list-style-type: none"> <li>• A major approach to resilience and adaptation is diversification of livelihoods. Development of livestock alone could exacerbate the population's vulnerability to climatic shocks and internal conflicts resulting from resource scarcity.</li> </ul>

### **2.3 Project type**

DRSLP - Project II is a regional loan/grant investment operation using ADF XIII resources from the Performance Based Allocation (PBA), Regional Operation (RO) and Transition Support Facility (TSF) windows. Eritrea and Ethiopia will use part of their PBA to leverage resources from Regional Operations (RO) Window (Eritrea as 50% loan and 50% grant and Ethiopia 100% loan). Somalia and Sudan will benefit from TSF-Pillar I resources to mobilise RO resources as a grant.

## 2.4 Project cost and financing arrangements<sup>1</sup>

2.4.1 The total Project II cost (exclusive of tax and customs duty) and including provision for physical contingencies and price escalation, is estimated at UA 81.667 million, composed of UA 74.982 million from ADF XIII and UA 6.685 million from counterpart funding, as shown in Tables 2.3 through 2.6, below. The ADF XIII resources come from the Regional Operations envelope (UA 47.089 million), the countries' Performance-Based Allocation (PBA) (UA 12.893 million) and Transition Support Facility-Pillar I (15.000 million). Government counterparts will be mobilized both in kind and in cash.

**Table 2.3: Project II Estimated Cost by Component**

COMPONENTS	COSTS						Base cost	% F.E
	(UA'000)			(US\$ '000)				
	Local	Foreign	Total	Local	Foreign	Total		
1. Natural Resource Management	8,604	19,957	28,561	13,164	30,535	43,699	38	70
2. Market access and trade	3,965	10,654	14,619	6,066	16,301	22,367	19	73
3. Livelihoods support	5,690	11,128	16,818	8,706	17,026	25,731	22	66
4. Project Management and capacity building	8,249	7,809	16,058	12,621	11,948	24,569	21	49
<b>Total base costs</b>	<b>26,508</b>	<b>49,548</b>	<b>76,056</b>	<b>40,557</b>	<b>75,809</b>	<b>116,366</b>		65
Contingencies	2,504	3,107	5,611	3,831	4,754	8,585	7	55
<b>Total project costs</b>	<b>29,012</b>	<b>52,655</b>	<b>81,667</b>	<b>44,387</b>	<b>80,564</b>	<b>124,951</b>		64

**Table 2.4: Project II Cost by Expenditure Category**

Category of expenditures	(UA '000)			(US\$ '000)			% Foreign	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
<b>I. Investment Costs</b>								
A. WORKS	10,140	29,431	39,571	15,514	45,029	60,543	74	48
B. GOODS	1,551	4,871	6,422	2,373	7,453	9,826	76	14
C. SERVICES	8,053	10,564	18,617	12,322	16,163	28,485	57	16
<b>Total Investment Costs</b>	<b>19,744</b>	<b>44,866</b>	<b>64,610</b>	<b>30,209</b>	<b>68,645</b>	<b>98,854</b>	69	79
<b>II. Recurrent Costs</b>								
A. Operating and maintenance costs (including personnel)	6,764	4,682	11,446	10,347	7,165	17,512	41	10
<b>Total Recurrent Costs</b>	<b>6,764</b>	<b>4,682</b>	<b>11,446</b>	<b>10,347</b>	<b>7,165</b>	<b>17,512</b>	41	21
<b>Total Base Costs</b>	<b>26,508</b>	<b>49,548</b>	<b>76,056</b>	<b>40,556</b>	<b>75,810</b>	<b>116,366</b>	65	
Contingencies	2,504	3,107	5,611	3,831	4,754	8,585	55	7
<b>Total project costs</b>	<b>29,012</b>	<b>52,655</b>	<b>81,667</b>	<b>44,387</b>	<b>80,564</b>	<b>124,951</b>	64	

<sup>1</sup> Detailed costs for Eritrea, Ethiopia, Somalia and Sudan are provided in their respective Country's Appraisal reports.

*Table 2.5: Disbursement Accounts by Financiers (UA '000)*

Sources of Financing	Total Amount (UA '000)				
	Foreign		Local		Total
	UA	%	UA	%	UA
<b>ADF Grant</b>	979	65	521	35	1,500
<b>ADF Loan</b>	7,663	67	3,730	33	11,393
<b>R.O Loan</b>	14,482	66	7,607	34	22,089
<b>R.O Grant</b>	18,646	75	6,354	25	25,000
<b>TAF</b>	13,447	90	1,553	10	15,000
<b>Total</b>	<b>55,217</b>	<b>74</b>	<b>19,765</b>	<b>26</b>	<b>74,982</b>
<b>Governments</b>	2,585	39	4,100	61	6,685
<b>Total Costs</b>	<b>57,802</b>	<b>71</b>	<b>23,866</b>	<b>29</b>	<b>81,667</b>

*Table 2.6: Expenditure Schedule by Component in UA Million*

Components	Y1	Y2	Y3	Y4	Y5	Total
1. Component 1:Natural Resource Management	5,055	13,097	8,096	1,942	371	28,561
2. Component 2: Market access and trade	1,528	6,900	4,596	1,318	278	14,619
3. Component 3: livelihoods support	2,701	6,329	4,886	2,002	900	16,818
4. Component 4 : Project Management	4,571	3,334	2,837	2,668	2,648	16,058
<b>Total base costs</b>	<b>13,854</b>	<b>29,660</b>	<b>20,415</b>	<b>7,930</b>	<b>4,197</b>	<b>76,056</b>
Contingencies	948	1,460	1,371	902	930	5,611
<b>Project total costs</b>	<b>14,802</b>	<b>31,120</b>	<b>21,786</b>	<b>8,832</b>	<b>5,127</b>	<b>81,667</b>

## **2.5 Project's target area and population**

2.5.1 The project will cover four countries of the HoA namely Eritrea, Ethiopia, Somalia and Sudan, targeting drought-prone and food-insecure areas and communities where pastoralism and agro-pastoralism are the main sources of livelihood. An estimated 20 million agro-pastoralists affected by drought and land degradation will directly benefit from the project. Other direct beneficiaries include the Governments of the States of the Region and IGAD whose capacities will be strengthened to coordinate a regional approach to enhance enhancing drought resilience development and regional integration.

2.5.2 The programme is expected to increase the income of agro-pastoralists through the improvement of the delivery of livestock related services (animal health, rangeland management, marketing, etc.) and the development of irrigation schemes leading to the improvement of livestock parameters (growth rate, carcass weight, milk production and offtake rate) and, the productivity/production of the main crops. More importantly, the diversification of the sources of livelihood and the mobilization/conservation of water resources will reduce the exposure of the population to the climate change shocks and related conflicts. Women and youth will particularly benefit from the project as specific activities (including income generating activities) will be designed to enhance their economic and social integration/empowerment. More detailed

information on the target area and population for each participating country is given in the respective country report.

## **2.6 *Participatory process for project identification, design and implementation***

2.6.1 The DRSLP - Project II was conceptualized based on the findings of the Bank-commissioned studies as earlier mentioned. During those studies, high- and grassroots-level consultations were carried out and validation workshops attended by the diverse stakeholders were organized. This participatory approach was fostered during preparation and appraisal missions in Eritrea, Ethiopia, Somalia and Sudan. During these missions, countries' officials, technical experts, potential beneficiaries and DPs were consulted and the views and suggestions of all the stakeholders are fully considered in the final design of the project. This participatory approach adopted at the design stage will be enhanced during the implementation. Beneficiaries, through their representatives, will be members of the project steering committee and closely associated to the monitoring and evaluation process. Furthermore capacities of beneficiary associations will be strengthened in the management and maintenance of community infrastructures.

2.6.2 The surveys and discussions with beneficiaries revealed a variety of constraints that communities have faced in the region. However, drought constitute a common challenge with devastating impacts on livestock production, the reduced terms of trade for livestock, and the loss of livestock savings through high mortality. Conflicts over the natural resources which characterise the region, were identified as a driver of the region's fragility (See Annex 5). With these priorities in mind, the project is designed to make investments in water mobilization and management for livestock agriculture and humans, marketing infrastructure including roads, livestock health infrastructure. The DRSLP II also intends to invest in capacity building of government staff and communities. Given that most of the participating countries have had histories of political crises, conflicts and instabilities, a special attention will be given to applying the fragility-lens during project implementation.

## **2.7 *Bank Group experience, lessons reflected in project design***

2.7.1 The proposed project design was strongly informed by the success of similar interventions the Bank has financed in a number of regional operations in several African Regional Economic Communities (RECS) to foster economic cooperation and integration for economic growth and social development among countries. These include the ASAL areas of Djibouti, Kenya, and Ethiopia, Nerica Rice, Aquatic Weeds, Trans-boundary Animal Disease Management,...). Implementation and institutional arrangements difficulties and delays in the start-ups of the DRSLP I were taken into consideration as lessons learned and fully integrated in the DRSLP – Project II design. Examples of past and on-going operations in the countries are listed in Appendix II of each country appraisal report.

2.7.2 Other lessons, such as the adoption of a regional, watershed based and long term approach, stronger coordination both at regional and national levels, the use and strengthening of country systems, and the need for instituting strong community ownership and implementation structures workable in the context of each country has been also taken in to account in the DRSLP - Project II design. Additionally, the Bank's experience and lessons on the procedures

for engaging and adapting to country-specific circumstances in supporting fragile states is also reflected in the project design. A strengthened IGAD Secretariat is expected to play the role of regional coordination and advocacy entity among the member countries and ensure regional oversight and monitoring of the whole program.

## **2.8 Key performance indicators**

The project aims at enhancing drought resilience and sustainable livelihoods among agro-pastoralist communities. The progress toward achieving this objective will be measured through i) the number of water and animal health and marketing related infrastructures developed, ii) number of women and men and livestock accessing water within a certain distance; iii) the number and adoption rate of alternative livelihoods sources with data stratified by gender, iv) the incremental productivity/production of livestock and main crops; v) the area of land rehabilitated and, vi) the change in the beneficiary's incomes (men and women), vii) number of personnel and beneficiaries (males and females) benefiting from capacity building programs, and viii) inter/intra-community conflict over water and grazing resources. Key indicators to measure the programme impact will be: i) the % of the population affected by drought, floods and land degradation (data stratified by gender), and ii) the food security index of the region, and iii) Improved social cohesion among (agro) pastoralists to manage crisis. The different programmes reports and surveys at the regional and national levels will provide values on the retained indicators outcomes and results. A monitoring and evaluation expert in the Regional Coordination at IGAD working in close collaboration with the PCUs / PIUs in the participating countries and other key partners will be responsible of the coordination of data collection, analysis and dissemination. Although to a different degrees, the necessity for some baseline data on the key indicators is necessary for all participating countries.

## **III – Project feasibility**

### **3.1 Economic and financial performance**

3.1.1 The project will have both *direct and indirect benefits*. Improved livelihoods for the smallholder farmers will be the main direct benefit. Access to irrigated land and improvement in livestock delivery services including forage availability and specific Income Generating Activities (IGA) for youth and women are expected to increase their income. In particular, construction of roads which will improve accessibility and marketing of agricultural and livestock produce, marketing and agro-processing infrastructure will greatly improve trading in the region most of most of which is carried out by women and youth. In addition, the development of the different infrastructures would result in the creation of approximately 150 000 labor working days (mostly as temporary) generating additional income accruing to households and creating a positive (inclusive) growth spiral. Additional project benefits include improved social stability, women social and economic empowerment, improved food security, reduced vulnerability to external shocks and, enhanced capacities of the Governments of the region to improve preparedness to drought events and therefore contribute to communities resilience. Furthermore, more livestock will be available for farming activities as animal traction is increasingly being used for farming activities.

3.1.2 National economies and regional integration will also benefit from the project. Effective cooperation in the management of trans-boundary water resources and improved rangeland management would reduce conflicts and promote social stability and strengthen regional integration. The development of market infrastructures and the improvement of the delivery of animal health related services, mainly the prevention and control of TADs will contribute to intra- and extra-regional safe trade in livestock products.

3.1.3 Basic assumptions. Ethiopia and Sudan were taken as representative countries based on their livestock statistics (80% of the total livestock size) the volume of their national components (79% of the project's total costs) and their exposure to drought. The main assumption underlying the determination of FIRR and EIRR is an anticipated increase in the farmer's incomes resulting from the improvement of basic livestock parameters (growth rate, live animal and carcass weight, offtake and milk production) and the productivity/production of main crops. It is estimated that the productivity of the main crops and the livestock parameters will increase by 20-30%. Additional revenues are generated by the processing of skins and hides and also the use of livestock dung for fuel. The "with" and "without" scenario approach was used. Market prices were used for non-traded products and border price for traded items. The EIRR is 23.7% and the net present value is \$US 8.49 million at 12%. The FIRR is 20% and the NPV is \$US5.48 million at 12%.

*Table 3.1: Key economic and financial figures*

<b>NPV @ at 12% (\$US 'million')</b>	8.49
<b>FIRR</b>	20%
<b>EIRR</b>	23.7%

3.1.4 Sensitivity Analysis: Both the FIRR and the EIRR are sensitive to changes in costs and prices. A 10% increase in market prices raises the EIRR and the FIRR to 24.5% and 22% respectively. Those figures are 21% and 18% in the case of prices decrease or costs increase. Detailed analysis provided in Annex 3.

3.1.5 Financial analysis was also performed at the household level to determine the improvement of the farm's revenue. A typical agro-pastoral farm model was developed for each country. The net incremental income per household generated by the sales of livestock and agricultural products ranges from \$US 1121, 6 to \$US 3262 per year assuming a 2 cycle agricultural production per year. This is equivalent to \$US 224 and \$US 652 per capita per year, respectively.

## **3.2 Environmental and Social Impacts**

3.2.1 The Environmental, Social and Adaptation aspects of the Program have been thoroughly analyzed and assessed through a Strategic Environmental and Social Assessment (SESA) as follows.

3.2.2 **Environmental aspects:** The Project is basically a country(ies) - wide adaptation intervention to climate change by improving the resilience of communities and agro-pastoral

production systems. Consequently, the project has been classified in category 2 according to Bank's Environmental and Social Assessment Procedures (ESAP). The negative impacts of the program may be limited and could be managed by tools that will be proposed through an Environmental and Social Management Framework (ESMF) resulting from the Strategic Environmental and Social Assessment (SESA). However, the SESA is meant to look into the projects, activities and outputs of this Program and confirm the classification. In doing so, the results of the field work have shown that the SESA and the ensuing ESMF are binding only to the Bank and not to the countries that have their own evaluation systems. For some of these countries, the categorization goes through a prescreening stage that may lead to a category 1 assessment. The environmental aspects of the Program will be assessed through Bank's new tools and ISS and country's own systems and adequate mitigation measures implemented with a dedicated budget clearly indicated in the Project Appraisal Report (PAR) of the Program.

3.2.3 During the implementation of the programme, site specific EIAs or ESMPs will be elaborated for each sub-project depending on the regulation of each country. The cost of the ESMP implementation will be integrated in the sub-project cost.

3.2.4 **Climate Change aspects:** In the long term, the DRSLP is a response to the devastating climate change evidenced by drought, environmental degradation, and poverty in the Horn of Africa's vulnerable communities. The project is designed to address the root causes of the enhanced, devastating slow onset disasters while building medium to long-term resilience. Most of the interventions of the project are designed to be climate change adaptation and mitigation measures. The SESA in consideration of the climate change aspects has examined hypotheses, risks and challenges in relation to climate change. The hypotheses are centered on the current vulnerability and resilience of the people and communities. The risks are addressed in terms of what sort of risk management measures should be designed to address them, primarily the climate effects (droughts and floods) and vulnerability or the increase exposure or susceptibility, especially of the vulnerable and poor, to endemic risks or external shocks. Challenges facing this Program are the availability / choice of the right adaptation technology, participation and empowerment of all stakeholders and shareholders, integration of interventions, learning lessons instantaneously and avoiding ignoring the environmental costs of doing nothing, very little or not using the right approach. Viewing climate change in terms of risk assessment and risk management in the Horn of Africa makes it clear that, taking a cautious stance, doing nothing or very little and the business as usual model, mean that the Program and the decision makers are taking a substantial risk. With climate change looming in the background of this Program, the decision makers will never know enough to resolve all uncertainties but they know enough to recognize the opportunity to act now. Risk management in climate change is primarily a conservative principle, as is about preservation of the natural environment for current and future generations in the Horn of Africa. At the end of this Program all projects and activities should lead to reduced vulnerabilities of communities and increase resilience of production systems. The costs of activities (in the Program) necessary to make the transition to lesser vulnerabilities and increased resilience are real, but still modest now relative to the risks later.

### 3.2.5 Gender Aspects

3.2.5.1 A fundamental shift in strategizing pastoralist livelihoods, and especially that of women, is to recognize innovation and entrepreneurship, and not limiting activities to those of coping. Although gender relations in the pastoral communities vary widely among tribes, regions, and countries participating in the DRSLP - Project II, there are some shared realities. Not only are women time-poor with long daily household routine duties, from childrearing, preparation of the meals, collection of firewood and water for the household to livestock management, but opportunities to economic empowerment and contribution to household are not maximised due to low capacity, lack of inputs, tools and credit and financial illiteracy.

3.2.5.2 It is the aim that through the Project II, women's economic empowerment is mainstreamed so that their access for the proposed productive infrastructure and the necessary soft interventions are enhanced. The increased water and market infrastructures, information systems, and livestock health facilities will ease existing economic activities they are engaged in such as goat fattening, agro-processing as well as saving them time. Their inclusion in these infrastructure management committees will improve their decision making capacity and skills at community level; whilst their training (in for e.g. book-keeping, public speaking) will ensure that their participation is meaningful. Project II will provide access to credit through group formation on activities informed by a value chain analysis. This will ensure that they will increase their economic independence which lends itself to decision making at household level. Training in business management will ensure they have the right skillset to take their enterprises forward.

3.2.5.3 It is imperative that in planning phases of Project II the Gender Experts in the PCUs are recruited to ensure the standards (e.g. 30% min inclusion for women) are set in place from the outset. The injection of funds building on the pre-existing livelihood diversification requires careful monitoring and evaluation. Overall they will enforce consistency and quality of mainstreaming – themselves becoming a resource generating knowledge on issues that suffer from a paucity<sup>2</sup> of data in the region. The collection, collation and dissemination of relevant information will inform future programming paving the way for sensitive issues such as property rights to be handled through evidence based approaches. In the first stages, the baseline data will be sex-disaggregated, and the relevant Ministries will receive training and workshops in order to place the appropriate country-specific policies in place for improved livelihoods of the women<sup>3</sup>. The investment of a strengthened Gender infrastructure across all levels of the project is a testament of the government's and project's commitment to gender equality.

3.2.6 **Involuntary resettlement:** The implementation of this project does not induce any involuntary resettlement. The infrastructures to be established or rehabilitated will be built on existing right-of-way and locations and thus no persons shall be displaced.

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<sup>2</sup> UNDP's HDI & WEF's Gender Equality Gap include information in Ethiopia (118/136) out of the 4 countries.

<sup>3</sup> 62% of the women entrepreneurs in Mogadishu felt policies were discriminatory against women

## IV – Implementation

### 4.1 *Implementation arrangements*

4.1.1 **Implementing Conditions:** Considering the regional nature of the program, the overall coordination of the program and the implementation of trans-boundary activities will continue to be carried out at the regional level by IGAD, working in close collaboration with the line Ministries in the participating countries. At the national level, the Ministry in charge of Agriculture and livestock or its equivalent will be the Executing Agency, with the exception of the countries under Sanctions. The Executing Agency will set up collaborative partnerships with other relevant Ministries, Government Technical Departments and non-Government institutions to execute specific activities of the Program as stipulated by specific agreements. For countries under sanctions i.e. Somalia and Sudan, which are also fragile states, the financial and implementation arrangements will be undertaken by a third party in order to comply with the requirements of the Strategic and Operational Framework for Regional Operations. To this end, a tri-partite Protocol of agreement will be signed between the Bank, the Third Party and the Government to describe in detail the implementing arrangements.

4.1.2 Under this two-layers coordination scheme, National Executing Agencies, Implementing Third Parties, Project Coordination Units and Steering Committees will be set up to implement and coordinate project activities at the National and sub-national levels. All fiduciary responsibilities will be handled at the national level in coordination with the Bank.

4.1.3 IGAD' capacity is being strengthened through DRSLP, both with resources to recruit additional staff and purchase important equipment, and knowledge being gained through the implementation of its own component under DRSLP I and the coordination of the programme at country level. Moreover, a closer coordination will take place during the annual planning of / reporting on project activities (national and regional activities), implementation and Bank supervision missions. Regular communication exchanges among the different parties (Participating Countries, IGAD Secretariat and the Bank) will foster knowledge mobilisation, management and sharing to improve results delivery in a cost effective way. It is also worth noting that IGAD will coordinate the activities of DRSLP II in all countries and as such it will be able to transmit lessons learned from DRSLP I to DRSLP II's new entrant participating countries.

4.1.4 The implementation arrangement will vary from one participating country to another depending on: i) the existence or lack of adequate capacity in the executing agency; ii) the existence or not of an ongoing DRSLP I; iii) the governance structure in the participating country, namely the extent of decentralization; and iv) the existence of sanctions (such as in Somalia and Sudan). Details on the implementation arrangements are described in each country appraisal report. In brief, Somalia and Sudan will receive their resources through a Third Party which have already been selected by their respective Governments, namely The Intergovernmental Authority on Development Secretariat (IGAD Secretariat. and implementing agencies will be competitively recruited for the day to day management of the respective country components). The Ethiopia component will be implemented by the existing management unit set

up under DRSLP-II while in Eritrea the project will be coordinated by a Project Coordination Unit (PCU) to be established under the Ministry of Agriculture with qualified appointed by the Government or recruited competitively where need be. Depending on the prevailing grassroots governance structure in the participating country, beneficiaries represented by Community Based Organization (CBOs) or other forms of organizations (Civil Society Organizations (CSOs), Professional Organizations (POs), ...) will be fully involved in the planning, implementation and monitoring of the Program activities in the participating countries.

**4.1.5 Procurement arrangements:** The use or non-use of the National Procurement systems, are country specific and depended on the outcome of Bank assessment conducted prior or during appraisal. The overall assessment indicates that Bank's Procurement Rules and Procedures will apply for Eritrea, Somalia and Sudan. However, in the case of Ethiopia, the Country Procurement Procedures will be used for National Competitive Bidding and Shopping of Goods and Works subject to conditions set out in Annex III of the Financing Agreement, whereas Bank's Procurement Rules and Procedures shall apply for ICB procurements and Consultancy services. Specific procurement arrangements and draft procurement plans for each country are outlined in their respective country PARs – The fully updated procurement plans will be produced before negotiations of the Project II.

**4.1.6 Financial Management:** Details on financial arrangements recommended for the implementation of DRSLP II by each participating country are presented in Technical Annex B4, Volume II of the appraisal report. They are based on the assessment of the capacity of each country's executing agency and the structure of the Project in the countries covered.

4.1.7 Each executing agency of the Program will be provided with: (i) an administrative, financial and accounting procedures manual adapted to the specificities of the country; (ii) a sufficient number of qualified financial management staff with enhanced capacity in disbursement rules and procedures, financial management and the use of the accounting software adopted; and (iii) a computerized accounting system for keeping commitment accounts which is distinct from that of the executing agency and incorporates the three budgetary, general and analytical accounting modules.

4.1.8 The internal control mechanism will be built around the administrative, financial and accounting procedures manual. The manual will lay down the organization and functioning of each executing agency, the information system of the programme component, the profiles of the key positions, and the key operational management procedures, especially financial management and accounting procedures. The financial information system of each component will be based on updates of the accounting system which will produce quarterly budget implementation reports and annual financial statements.

**4.1.9 Disbursement Arrangements:** Details on the disbursement arrangements of the various country components are presented in Technical Annex B4, Volume II. Generally, they are based on the following three methods: (i) the special account method; (ii) the direct payment method; and (iii) the reimbursement method. The special account method will require the opening of a special account or special accounts, as appropriate, in banks acceptable to the ADF, and will be used to finance eligible expenses. The direct payment method will be used to pay expenses

related to goods, works and consultancy services. Lastly, the reimbursement method will be used for ADF-eligible expenses pre-financed by the executing agency with the prior approval of the Bank.

**4.1.10 Auditing:** Each country component will conduct a yearly audit of its financial statements. An independent external audit firm will be recruited to conduct an external audit based on Bank-approved terms of reference. Each recruited firm's contract term will be one year renewable based on service quality and for a period not exceeding three years. Audit reports shall be submitted for approval to the Bank within the six months following the closure of the audited financial year.

## **4.2 Monitoring**

4.2.1 The programme emanated from an earlier study on the HoA and will capitalize on data from DRSLP I. However, more baseline surveys, with gender disaggregated data, will be conducted as needed early in the first year of the project implementation and results used to accurately inform the result-based logical framework baseline and target values.

4.2.2 The M&E system will determine the overall and country levels of physical implementation rates and financial commitment and disbursement rates of the ADF, Counterpart and other Financiers when applicable. It will be informed based on supervision missions and progress reports. The monitoring of physical and financial implementation (commitments and disbursements) in relation to forecasts will help to ensure adherence to the programme implementation schedule. The evaluation of programme outcomes and impacts will be conducted at the national and regional levels under the supervision of monitoring and evaluation experts from the IGAD Secretariat and the participating countries. The Executing Agencies, PIUs and national and regional institutions in charge of statistics and / or specialized monitoring and evaluation consultants will, be mobilised to establish the baseline situation and assess project impacts.

4.2.3 Through recruitment of the necessary expertise and in collaboration with the national components, IGAD will assist in the harmonization of a gender- and conflict-sensitive M&E mechanism for DRSLP II along with the preparation of an implementation manual to operationalize the collection, processing and reporting channels of the indicators of the logical framework at the national and regional levels. The same will apply to the choice of project implementation players and partners. The activities planned under the project are summarized in the table below.

<b>Activity</b>	<b>Responsible Entity</b>	<b>Deadline</b>
Appraisal	ADF	July - August 2014
Negotiations	Govts / ADF	November 2014
Project Presentation to ADF Board of Directors	ADF	November 2014
Signature of Grant Protocol and Loan Agreements	Govts / ADF	January 2015
Authorization of 1 <sup>st</sup> Disbursement	ADF	May 2015
Project Launching	Executing Agency / Third Party Implementers (TPIs) / ADF	June 2015
Service Delivery	PIUs / TPIs	May 2015 / December 2019

<b>Activity</b>	<b>Responsible Entity</b>	<b>Deadline</b>
Mid-term Evaluation	Govts / ADF	December 2017
Completion of Activities	Govts/ PIUs / TPIs / ADF	January 2020
Completion Report	Govts /ADF / TPIs	March 2020
Auditing	Executing Agencies / TPIs / ADF	Annually

### **4.3 Governance**

The HoA has been affected by a chronic cycle of poverty, instability and conflict over natural resources. Challenges commonly faced by all the countries of the region are weak governance, conflict prevention, nomadic pastoralism, food security, and resource sharing. IGAD has become a central part of the political and security architecture of the Horn of Africa. IGAD focuses particularly on regional governance and integration, through the promotion of responsive leadership at local, national and regional levels, and the introduction of anti-corruption measures; also on the efficient management of the natural resources, food security, border control and non-proliferation of small arms. Regional, multisectoral interventions, such as the DRSLP aim at preventing and mitigating conflict by addressing the root causes of instability. The project design integrates specific measures to mitigate governance risk to ensure that resources are used judiciously and for the purposes for which they are intended. In this regard, the project will provide technical assistance in procurement to the various executing agencies and IGAD Secretariat. The project will coordinate its effort with Bank and non-Bank ongoing interventions dealing with capacity building of public institutions.

### **4.4 Sustainability**

4.4.1 During the project preparatory stages, the choice of drought resilience infrastructure and need for capacity building were the results of a consensus over technical discussions held during the project identification, preparation and appraisal stages. The project will be community-driven and government facilitated. The beneficiaries, men and women, have been consulted all along in the design of the project. Their continued involvement at implementation and monitoring of project achievements will increase the sense of ownership and responsibility and will lead to the sustainability of the investments. Cost sharing and cost recovery mechanisms will be used whenever possible to further promote investment sustainability.

4.4.2 The programme will build capacity of target communities in the HoA by developing, strengthening and revitalising the community based maintenance systems through improved mobilisation, sensitisation and training of community members and community based associations. This will make the operating and maintenance of interventions by the beneficiaries' cost effective ones. Designs in water infrastructure and feeder roads will be kept as simple as possible to make them user friendly for the beneficiaries. The beneficiaries are mostly nomads and do not stay in one place for long to maintain the infrastructure. But they move in search of pasture and food. As the project will build infrastructure to provide durable water supply and pasture, the beneficiaries will not feel compelled to move. They will thus be trained and sensitized to efficiently use and maintain the infrastructure.

4.4.3 The investments made by the Program in the area of trade, value addition of existing activities and diversification of income will promote the linkage between production and the

market and facilitates access to production inputs and related services while improving the livelihoods of men and women led households. This will be a major contribution to enhancing the commitment of the different actors of the value chain from production to consumption.

4.4.4 Furthermore, the project will capitalize and promote private sector involvement in all the participating countries, encouraging private investors under the public-private partnerships (PPP) arrangements in order to leverage the limited public resources.

#### 4.5 Risk management

<b>Risks</b>	<b>Mitigation measures</b>
Limited capacity of IGAD Secretariat and National Implementing Institutions.	In DRSLP - Project I under implementation, IGAD benefited from Bank support (UA 5 million) to strengthen its capacity in the form of training, technical assistance and logistical support. DRSLP Project I and II are also making provision for capacity building of implementing entities and executing agencies to improve upon project implementation performance.
While IGAD has put in place a conflict resolution mechanism which might reduce the challenges, a continued conflict in the region could seriously undermine the effectiveness of the project.	Governments in the region fully recognize that addressing the competition for natural resources related to water, pasture and livestock production is at the root of conflict management in the region and this recognition ensures adequate political commitment to the implementation of a drought resilience program such the DRSLP.
Limited technical and managerial capacities of the participating communities may jeopardize the sustainability of the investments made.	The Project will strengthen the beneficiary communities based maintenance system through improved mobilisation and sensitization and training with emphasis on women and the youth. Knowledge on drought resilience and coping mechanisms will be shared with the communities and the relevant public institutions to improve preparedness to drought and flood events.
The fragility status of 3 countries out of the 4 participating ones could undermine the regional benefit of the program.	The program will be resorting to a third party to bear the implementation and financial responsibilities of the program so that it will not hold back the overall program implementation.
Unpredictable drought or flood can interrupt the implementation dynamic of the program.	While the program will be investing in long term solutions to drought, the Bank's emergency intervention can still be triggered in coordination with the international community in the event of an unexpected drought or flood.
Large coverage and number of participating countries may challenge timely implementation.	The program made provision to support a regional coordination mechanism through IGAD with the collaboration of national implementation and coordination entities and executing agencies.

#### 4.6 Knowledge building

4.6.1 The implementation of the project will encounter a number of challenges and good practices at national and regional levels, which will be documented in the program progress, audit, mid-term review, and completion reports. During the implementation, other information routinely collected will feed into the monitoring and evaluation process. Discussion with the beneficiaries, during program implementation will also be valuable sources of local knowledge on drought resilience to be captured and shared.

4.6.2 As the Bank is increasing its interventions in the HoA through scaling up within and across countries, important knowledge will be generated in the area of resilience building in the HoA and beyond. In the knowledge mobilization process, attention will be given to local knowledge and experiences and lessons from similar interventions in other regions. Thematic

networks and discussion groups in the area of resilience building are already being organized and functional and the project will promote cross-border learning within HoA region by joining these circles and by ensuring that IGAD Secretariat will play an active regional coordination role. Learning linkages with the Sahel program will also be encouraged through information sharing and exchange visits. Face to face gatherings and virtual networking and dedicated websites will be some of the tools used by the program to share knowledge among the communities, public institutions and other relevant stakeholders.

## **V – Legal framework**

### **5.1 Legal Instruments**

The project's will be governed by the following legal instruments: (i) a loan agreement between ADF and Federal Democratic Republic of Ethiopia; (ii) a loan agreement and a protocol of agreement between ADF and the State of Eritrea; and (iii) a tripartite agreement between the ADF the IGAD Secretariat and the Federal Republic of Somalia; and (iv) a tripartite agreement between ADF, the IGAD Secretariat and the Republic of the Sudan.

### **5.2 Conditions associated with Fund's intervention**

5.2.1 Conditions precedent to grant and loan effectiveness: the entry into force of the respective loan agreements shall be subject to fulfilment by the respective Borrowers of the conditions set forth in Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the Fund. The respective protocol of agreements and tripartite agreements shall enter into force on the date of their signature.

5.2.2 Conditions precedent to first disbursement of grants and loans: the obligation of Fund to make the first disbursement of the respective grant and loan shall be subject to the entry into force of the respective Protocol / Tripartite Agreements and the Loan Agreements, in accordance with the provisions of Paragraph 5.2.1 above, and the submission of evidence, in a form and substance acceptable to the Fund, of fulfilment by the Recipient or Borrower of the following conditions:

#### **For all Borrowers and Recipients and IGAD:**

- i. Provide evidence of opening special accounts in banks acceptable to the Fund to receive the respective loan and grant resources.

#### **Sudan**

- i. IGAD shall open a foreign currency account and a local currency account (The Special Account), in Djibouti, in a bank acceptable to the Fund, into which the Grant proceeds will be deposited; and
- ii. IGAD shall open a foreign currency account and a local currency account (Special Account), in Sudan, in a bank acceptable to the Fund, into which the Grant proceeds will be deposited.

### 5.2.3 Other conditions:

The Borrower/ Recipient shall provide to the Fund, within six months after the first disbursement:

#### **Ethiopia:**

- (i) Extend the mandate of the existing National Project Coordination Unit (NPCU) under DRSLP1 to the implementation of the Program;
- (ii) Submit an administrative, accounting and financial procedures manual within 6 months of the Signature of the Agreement;
- (iii) Ensure the implementation of the Environmental and Social Management Plan (ESMP) and the reporting on its implementation in the Quarterly Progress Reports to be submitted to the Fund; and ;
- (iv) Participate in the regional public consultation at inception of the Program under the coordination of the Intergovernmental Agency on Development (IGAD)

#### **Eritrea:**

- (v) Provide evidence within six months after the first disbursement, of appointment of National Project Coordinators and members of the project coordination team, whose skills and qualifications are acceptable to the Fund;
- (vi) Submission of an administrative, accounting and financial procedures manual within 12 months of the Entry into Force of the Agreement;
- (vii) Carry out an Environmental and Social Impact Assessment (ESIA) or an Environmental and Social Management Plan (ESMP) based on the categorization provided by its Regulatory Agency and put in place the appropriate mitigation measures and report on its implementation on a quarterly basis; and
- (viii) Participate in the regional public consultation at inception of the Program under the coordination of the Intergovernmental Agency on Development (IGAD).

#### **Somalia and IGAD**

- i. Provide evidence of the establishment of a Fund Management Unit (FMU) composed of at least a Coordinator, Procurement Officer, an Accountant and an administrative assistant, all to be recruited competitively and hosted at the IGAD Secretariat within 6 months of the signature of this Agreement;
- ii. Submit a Financial Management Manual, acceptable to the Fund, within 12 months from the Entry into Force of this Agreement;

- iii. Ensure the implementation of studies including on the Environmental and Social Management Plan (ESMP) or the Environmental and Social Impact Assessment (ESIA) as agreed with the Fund;
- iv. Submit Quarterly Progress reports on the Environmental Compliance, including on capacity building and institutional strengthening; and
- v. Ensure the participation of Somalia in the regional public consultation at inception of the Program under the coordination of the Intergovernmental Agency on Development (IGAD).

### **Sudan and IGAD**

- i. Provide evidence of establishment of a Fund Management Unit (FMU) composed of at least a Coordinator, Procurement Officer, an Accountant and an administrative assistant, all to be competitively recruited and hosted at the IGAD Secretariat within 6 months of the signature of this Agreement;
- ii. Submit a Financial Management Manual, acceptable to the Fund, within 12 months from the Entry into Force of this Agreement;
- iii. Ensure the implementation of studies including on the Environmental and Social Management Plan (ESMP) or the Environmental and Social Impact Assessment (ESIA) as agreed with the Fund;
- iv. Submit Quarterly Progress reports on the Environmental Compliance, including on capacity building and institutional strengthening; and
- v. Ensure the participation of Sudan in the regional public consultation at inception of the Program under the coordination of the Intergovernmental Agency on Development (IGAD).

### **5.3. Compliance with Fund Policies**

The programme is consistent with all Bank Group policies. The programme has been designed to comply with (i) the requirements of the Strategic and Operational Framework for Regional Operations, (ii) Justifications for financing recurrent costs and 100% costs for Somalia have been provided in accordance with the Policy on Expenditures Eligible for Bank Group Financing.

## **VI – Recommendation**

Management recommends that the Boards of Directors approve the proposed financing for: (i) Ethiopia: an ADF loan of UA 28.482 million (UA 11.393 million from PBA and UA 17.089 million from RO); (ii) Eritrea: an ADF grant of UA 6.5 million (UA 1.5 million from PBA and UA 5 million from RO) and an ADF loan of UA 5 million (all from the RO); (iii) Somalia:

An ADF grant of UA 15 million (UA 5 million from TSF and UA 10 million from RO); and (iv) Sudan: an ADF grant of UA 20 million (UA 10 million TSF and UA 10 million from RO).

## Annex 1: Eritrea, Ethiopia and Somalia and Sudan – Selected Macroeconomic Indicators

Indicators	Unit	Eritrea	Ethiopia	Somalia	Sudan
<b>National Accounts</b>					
GNI at Current Prices	Million US \$	2,759	34,857	...	...
GNI per Capita	US\$	450	380	...	...
GDP at Current Prices	Million US \$	3,092	41,520	...	1,213
GDP at 2000 Constant prices	Million US \$	897	21,887	...	846
Real GDP Growth Rate	%	7.0	8.8	...	4.5
Real per Capita GDP Growth Rate	%	3.6	6.1	...	2.9
Gross Domestic Investment	% GDP	...	33.1	...	25.1
Public Investment	% GDP	...	12.1	...	11.3
Private Investment	% GDP	...	21.0	...	13.8
Gross National Savings	% GDP	12.1	28.5	...	10.5
<b>Prices and Money</b>					
Inflation (CPI)	%	12.3	20.5	0.0	5.1
Exchange Rate (Annual Average)	local currency/US\$	15.4	17.7	...	177.7
Monetary Growth (M2)	%	...	...	...	-5.1
Money and Quasi Money as % of GDP	%	...	...	...	109.2
<b>Government Finance</b>					
Total Revenue and Grants	% GDP	...	15.7	...	35.3
Total Expenditure and Net Lending	% GDP	...	16.8	...	36.4
Overall Deficit (-) / Surplus (+)	% GDP	-13.5	-1.2	...	-1.1
<b>External Sector</b>					
Exports Volume Growth (Goods)	%	21.0	-2.9	...	9.1
Imports Volume Growth (Goods)	%	19.2	6.9	...	29.3
Terms of Trade Growth	%	53.4	-4.4	...	0.2
Current Account Balance	Million US \$	72	-2,699	0	-171
Current Account Balance	% GDP	2.3	-6.5	...	-14.1
External Reserves	months of imports	...	...	...	4.3
<b>Debt and Financial Flows</b>					
Debt Service	% exports	8.3	6.6	...	7.9
External Debt	% GDP	29.1	18.4	...	53.5
Net Total Financial Flows	Million US \$	...	...	...	188
Net Official Development Assistance	Million US \$	...	...	...	142
Net Foreign Direct Investment	Million US \$	74	970	107	78

**Source:** AfDB Statistics Department; IMF: World Economic Outlook, October 2013 and International Financial Statistics, October 2013;

AfDB Statistics Department: Development Data Portal Database, March 2014. United Nations: OECD, Reporting System Division.

**Notes:** .... Data not Available

**Annex 2: Map of the Program Area: DRSLP – Project II: Eritrea, Ethiopia, Somalia and Sudan**



### Annex 3: Economic Analysis

Year	Investment costs	Recurrent costs	Total costs	Incremental revenues	Incremental net income
1	684,042		684,042		- 684,042
2	1,218,115		1,218,115	17,500,000	16,281,885
3	908,061	10,000	918,061	20,309,999	19,391,938
4	274,948	12,500	287,448	38,318,125	38,030,677
5	146,036	35,000	181,036	40,544,983	40,363,947
6		50,000	50,000	40,895,135	40,845,135
7		150,000	150,000	41,266,591	41,116,591
8		150,000	150,000	41,646,500	41,496,500
9		150,000	150,000	42,035,055	41,885,055
10		150,000	150,000	42,432,455	42,282,455
11		150,000	150,000	42,432,455	42,282,455
12		150,000	150,000	42,432,455	42,282,455
13		150,000	150,000	42,432,455	42,282,455
14		150,000	150,000	42,432,455	42,282,455
15		150,000	150,000	42,432,455	42,282,455
16		150,000	150,000	42,432,455	42,282,455
17		150,000	150,000	42,432,455	42,282,455
18		150,000	150,000	42,432,455	42,282,455
19		150,000	150,000	42,432,455	42,282,455
20		150,000	150,000	42,432,455	42,282,455
21		150,000	150,000	42,432,455	42,282,455
22		150,000	150,000	42,432,455	42,282,455
23		150,000	150,000	42,432,455	42,282,455
24		150,000	150,000	42,432,455	42,282,455
25		150,000	150,000	42,432,455	42,282,455
	<b>EIRR</b>	<b>24%</b>			
	<b>NPV (\$US)</b>	<b>2,790,000</b>			

### Annex 4: Financial Analysis

Year	Investment costs	Recurrent costs	Total costs	Incremental revenues	Incremental net income
1	684 042		684 042		- 684 042
2	1 218 115		1 218 115	15 679 230	14 461 115
3	908 061	10 000	918 061	18 416 212	17 498 151
4	274 948	12 500	287 448	36 185 317	35 897 869
5	146 036	35 000	181 036	38 615 940	38 434 904
6		50 000	50 000	39 214 785	39 164 785
7		150 000	150 000	4 026 450	3 876 450
8		150 000	150 000	40 754 639	40 604 639
9		150 000	150 000	41 950 275	41 800 275
10		150 000	150 000	43 126 825	42 976 825
11		150 000	150 000	43 126 825	42 976 825
12		150 000	150 000	43 126 825	42 976 825
13		150 000	150 000	43 126 825	42 976 825
14		150 000	150 000	43 126 825	42 976 825
15		150 000	150 000	43 126 825	42 976 825
16		150 000	150 000	43 126 825	42 976 825
17		150 000	150 000	43 126 825	42 976 825
18		150 000	150 000	43 126 825	42 976 825
19		150 000	150 000	43 126 825	42 976 825
20		150 000	150 000	43 126 825	42 976 825
21		150 000	150 000	43 126 825	42 976 825
22		150 000	150 000	43 126 825	42 976 825
23		150 000	150 000	43 126 825	42 976 825
24		150 000	150 000	43 126 825	42 976 825
25		150 000	150 000	43 126 825	42 976 825
	<b>FIRR</b>	<b>21,39</b>			
	<b>NPV (\$US)</b>	<b>1 425 590</b>			

## **Annex 5: Fragility Note on the DRSLP-II**

1. The annex provides an overview of how the project design takes into account fragility- and conflict-related issues. While the project addresses primarily the environmental sources of fragility, the project is being carried out in a context of instances of local, national and regional conflict, as well as instability, all of which serve to aggravate environmentally-driven fragility.
2. The analysis below reflects the risks that existing or potential conflicts and manifestations of fragility pose for the effective implementation of the project, and the risks that lack of intervention poses. Country-level fragility analyses have been and are in the process of being conducted under the leadership of the Department for Transitional Support (ORTS). Those that are completed have been included in the Technical Annexes (Country Reports), (Somalia and Sudan).
3. This note also presents the consultative processes and key activities and measures that are being undertaken to ensure resilience building within the context of this project.

### **A. Fragility aspects and contexts addressed by the project**

4. The Bank commissioned two major studies in 2008 and 2010 on the Horn of Africa region. The outcomes of these studies provided the impetus for the development of the DRSLP program. The studies observed that serious degradation of natural resources due to mismanagement and climate change, along with conflicts among communities due to competition over increasingly scarce resources, both within and across countries, are driving the fragility and vulnerability of the region to severe and frequent drought incidences.
5. Following the approval of the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019), ORTS has conducted two studies into the drivers of conflict and fragility in Sudan and Somalia. These analyses were initial reviews of the political, economic, social and environmental factors that drive fragility in these two countries. Further studies are currently in progress for Somalia, and for Eritrea and Ethiopia in the context of a regional study on the Horn of Africa. The on-going dialogue and interactions with government and other stakeholders will further inform future interventions and programs.

### ***Conflict / Fragility Analysis***

6. The countries targeted by the program are part of the Horn of Africa region. The region has been home to the two longest lasting conflicts in Africa, namely the Sudan civil war and the Somalia civil war; both wars had spill-over effects in terms of refugees and regional insecurity on almost every country in the region. The effect has been loss of livelihoods (particularly in relation to farming and livestock keeping) and widespread insecurity (due to the high availability of weapon, and lack of effective law enforcement particularly in rural and marginalized areas).
7. Local, national and regional grievances, mostly centered on identity and resource sharing continue to be a key challenge. In the implementation of its programs, the Bank will have to work closely with regional partners to ensure that its engagement does not exacerbate any of these dynamics.

8. The recent stabilization of Somalia, has been a positive development and one that stands to greatly benefit regional stability. While significant gains have been made, more needs to be done to stem the negative effects of that conflict on the region particularly in terms of the refugee burden, small arms proliferation, and Al-Shabaab threats which sometimes close out entire villages from food access. All these factors serve to impede farming and livestock rearing activities; insecurity impedes access to markets, and significantly affects livelihoods.

9. Similarly in Sudan, conflict and marginalization have had a significant impact on civilian life and wellbeing. Population shifts and influxes both from outside and within Sudan have created tremendous pressure on social services and in some areas changed the structure of society and livelihoods. In Darfur, 10 years in IDP camps has changed the approach to livestock keeping that existed before the war. Today the population clusters around towns, where there is less range for livestock. Even with a return to peace, there are many among the young who may not identify with the previous way of life and will need new approaches.

10. In all the target countries, periods of conflict and neglect have created a significant developmental lag that has resulted in high levels of poverty, limited infrastructure beyond the capitals, low literacy rates, and a generally low Human Development Index. There are also high levels of inequality in access to basic services and resources between the centres and the periphery, with rural areas falling behind urban areas in all development indicators as well as on infrastructure. All these factors pose significant risks for future instability and conflict if not addressed.

11. Issues of food security and building resilience will be mainstreamed in DRSLP II. The program aims at addressing some of the key drivers of fragility faced by the region, namely environmental pressures, combined with competition over resources particularly between farming and pastoralist communities. The choices of the project interventions and which regions to intervene in Sudan and Somalia, to a certain extent, have been largely informed by understanding the fragility landscape and contexts of the countries.

## **B. Community-level consultation and participatory approach**

12. Grassroots-level consultations at the local (community) level by the project team with beneficiaries provided insights on the social dynamics around resource use and management, as well as potential for conflicts. Intensive consultations with communities and governments provided baseline information on historical competition over natural resources, models of conflict resolution and resilience-building. An aggregate of these vital information was useful in the negotiation with the government and other relevant stakeholders on project design, key activities and implementation approaches.

13. All the activities and intervention locations under this program are identified with a full participation of technical government officers from relevant line ministries and affected community members and other stake holders, so that the project embodies local capacity building, ownership, and sustainable project benefits.

14. For example, during the identification and preparation phase of the project, in one of the field visits in remote villages in North Somalia, some of the locations proposed by local authorities for water points (boreholes, earth pans) were later changed as a result of concerns by the direct beneficiaries for potential conflict and tensions over water points along clan lines

### **C. Key programmed activities and measures relevant for conflict management**

#### **15. *Sub-national and Community levels:***

1. Sensitisation and training of beneficiaries and communities on a number of issues, including on natural resource management and conflict management approaches.
2. Community-led engagement in the design and construction of the infrastructure for rangeland, livestock production and market, and alternative livelihood strategies.

#### **16. *Regional and National levels:***

3. As the regional body coordinating the drought resilience in the Horn of Africa, IGAD has put in place a conflict resolution mechanism (as part of the grant to IGAD in DRSLP I) to manage any conflict that might undermine the effectiveness of the project.
4. IGAD is also expected to facilitate exchange of best practices in conflict management among participating countries.
5. IGAD in conjunction with national governments will also manage conflicts arising from cross-border movements of pastoralists and competition for water and pastures.
6. At the national level, the Project Steering/Monitoring Committee is tasked with the responsibility of providing adequate political commitment to address issues of resource scarcity at the national and sub-national levels.
7. Capacity building interventions at the ministerial level on institution- and resilience-building systems.
8. Project implementation arrangement structures in each project location are largely organized within a framework that is sensitive to conflict resolution and management.

### **D. Implementation, supervision and monitoring after Board approval**

17 A fragility assessment for the Horn of Africa is currently being carried out and will be completed at the beginning of 2015. This will include an assessment for Eritrea. In addition ORTS is carrying out a full-fledged fragility assessment for Somalia which will deepen the analysis in the already completed brief of the drivers of fragility. The existing and additional findings from these studies will continuously feed into the implementation of DRSLP II. In addition, ORTS is developing guidance notes on the application of fragility-lens in Bank's operations. As a flagship project in one of the most fragile regions of the world, ORTS will explore the opportunity to apply the fragility-lens in DRSLP II during launching and field supervision.

18 The design of the project takes into account innovative supervisory arrangement where local communities at the project sites who are primarily the beneficiaries undertake first-level supervision and monitoring, through an establishment of site-level project committee. The second-level supervision is at the national level where a monitoring team within the national PIU actively follows

up on the implementation at the multiple sites. For Sudan and Somalia, IGAD Secretariat will assume the responsibility of receiving and managing DRSLP-II resources through a Fund Management Unit to be established at IGAD HQs. IGAD will further play an additional monitoring role in its position as the third party assuming implementing responsibility on behalf of the two governments. The Bank's project team remains actively involved in most of the strategic aspects of the monitoring and effective implementation on the ground.

19 The project team recognizes that implementation is a dynamic process and that there is a space for adjusting and responding to changing situations as the project progresses. On the one hand, this recognition is linked to the Bank's commitment to undertake frequent supervision and close monitoring. On the other hand, the Bank will explore flexibility in its operating procedures in the fragile states, without compromising on its standards.