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**President's report**  
**Proposed Debt Sustainability Framework grant**  
**Federal Democratic Republic of Ethiopia**  
**Participatory Agriculture and Climate**  
**Transformation Programme**

Project ID: 2000003447

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**Action:** The Executive Board is invited to approve the recommendation contained in paragraph 53.

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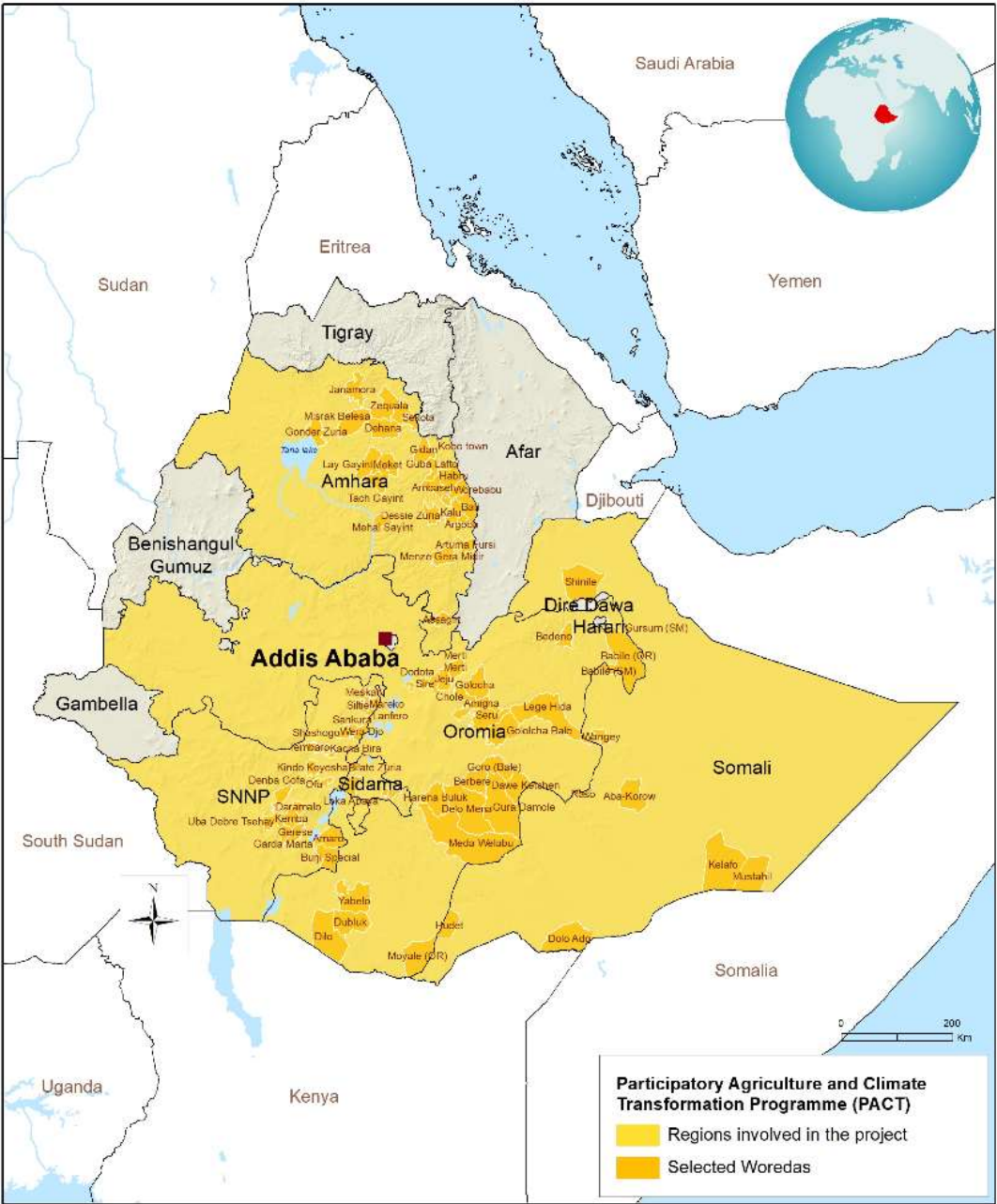
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- I. Negotiated financing agreement (to be made available prior to the session)
- II. Logical framework
- III. Integrated programme risk matrix

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Map of the programme area



 The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.  
IFAD Map compiled by IFAD | 29-11-2021

## Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	The Federal Democratic Republic of Ethiopia
<b>Executing agency:</b>	Ministry of Agriculture
<b>Total programme cost:</b>	US\$185.559 million
<b>Amount of IFAD [Debt Sustainability Framework] grant 1:</b>	US\$78 million
<b>Amount of IFAD grant 2 (enhanced Adaptation for Smallholder Agriculture Programme [ASAP+])</b>	US\$11.553 million
<b>Cofinanciers:</b>	Gender Transformative Mechanism (GTM)/Bill & Melinda Gates Foundation (BMGF) The European Commission (EC) Green Climate Fund (GCF)
<b>Amount of cofinancing:</b>	GTM/BMGF: US\$4.990 million EC: US\$19.953 million GCF: US\$35.013 million
<b>Terms of cofinancing:</b>	GTM/BMGF: grant EC: grant GCF: loan
<b>Contribution of borrower/recipient:</b>	US\$24.309 million
<b>Private sector contribution:</b>	US\$3.657 million
<b>Contribution of beneficiaries:</b>	US\$6.076 million
<b>Financing gap:</b>	US\$2.011 million
<b>Amount of IFAD climate finance:</b>	US\$34.948 million

# I. Context

## A. National context and rationale for IFAD involvement

### National context

1. The economy of the Federal Democratic Republic of Ethiopia has been seriously impacted in the past three years, notably due to the global effects of COVID-19, drought, supply shocks in key commodities and internal conflict in the country's northern regions. The conflict involving Tigray and parts of the Afar and Amhara regions, which had subsided following the declaration of a humanitarian truce by the Government in December 2021, resumed in August 2022.
2. Ethiopia's poverty levels fell from 45.5 per cent in 1994 to 19 per cent in 2020. Despite this positive trend and the economic progress that Ethiopia has achieved, poverty, food insecurity and vulnerability to climate change, as well as a lack of decent employment, remain the principal challenges, especially for rural women and youth.

### Special aspects relating to IFAD's corporate mainstreaming priorities

3. In line with IFAD's mainstreaming commitments, the Participatory Agriculture and Climate Transformation (PACT) programme has been validated as:
  - ☒ Including climate finance
  - ☒ Gender-transformational
  - ☒ Youth-sensitive
  - ☒ Including adaptive capacity
4. Constrained by social norms; limited access to quality services, infrastructure; access to resources, land, capital, technologies; and limited access to education and employment opportunities, along with poor dietary diversity, women, youth and persons with disabilities are unable to reach their full potential to become strong value chain actors.
5. To achieve gender-transformative, nutrition-sensitive and socially inclusive results, programme interventions will address the root causes of gender inequalities and social exclusion and foster disability inclusion, increase women and youth empowerment and develop inclusive markets.
6. **Climate vulnerability statement.** The main risks revolve around the high exposure and low adaptive capacity of the rural poor's livelihoods – food production systems in particular. The frequency and intensity of extreme weather events (droughts) and pest outbreaks are projected to increase, with higher losses and damage expected. PACT will integrate climate change adaptation and mitigation, focusing on regenerative agriculture.
7. **Linkage to programme activities.** PACT will support interventions that reduce land degradation and enhance communities' climate resilience and ecosystems, among them: (i) soil and water conservation; (ii) improved cookstoves; (iii) promotion of biogas use; (iv) participation in carbon markets; (v) greater access to efficient water technologies; and (vi) greater access to markets.

### **Rationale for IFAD involvement**

8. PACT will upscale successful interventions from past and ongoing IFAD investments, such as the Participatory Small-scale Irrigation Development Programme II (PASIDP II). PACT will build resilience, increase productivity and strengthen cooperatives to enable them to provide market services for their members. PACT will introduce innovative approaches such as information and communications technologies for development (ICT4D) and integration of climate change adaptation and mitigation through regenerative agriculture and compensation for environmental services from participation in carbon markets.

### **B. Lessons learned**

9. The main lessons learned from past and ongoing interventions include:
  - (i) Commercialize smallholder farmers by strengthening local producers' organizations.
  - (ii) Integrate climate resilience in all stages of the theory of change to heighten impacts across programme interventions.
  - (iii) Nutrition-sensitive irrigation is an essential pathway for increasing households' food security and dietary diversity.
  - (iv) Financial management arrangements for projects in Ethiopia are complex, since they operate through the country's decentralized systems. As part of risk- mitigation measures, audit coverage is being expanded to improve fiduciary oversight of IFAD-financed projects across the portfolio.
  - (v) Flexibility in managing projects can help provide responses to emergencies as they occur.

## **II. Programme description**

### **A. Objectives, geographical area of intervention and target groups**

10. **Programme goal and objective.** PACT's goal is to contribute to poverty reduction and improved resilience in selected landscapes/*woredas*.<sup>1</sup> Its development objective is to enable 150,000 vulnerable rural households (men, women, youth and persons with disabilities) in selected *kebeles* to sustainably improve incomes, food and nutrition security and build resilience to climate shocks. PACT will be implemented over a seven-year period.
11. **Geographic area of intervention.** PACT will be implemented in five regional states of Ethiopia: Amhara; Oromia; Southern Nations, Nationalities, and Peoples' Region; Sidama; and Somali. Selection of the regions was based on: (i) a large rural population; (ii) high poverty prevalence; (iii) high rate of food and nutrition insecurity; (iv) the presence of economic opportunities/markets relevant to PACT; (v) impacts of climate change and natural resource degradation; and (vi) relative security (in consultation with the Government of Ethiopia).
12. **Target groups.** PACT will benefit some 150,000 households, with the targeted participation of women (50 per cent), youth (40 per cent) and persons with disabilities (5 per cent). The primary target group will include: (i) poor households (with land holdings of less than two ha of cultivable land with limited livestock); (ii) pastoralists; (iii) agropastoralists engaged in less-diversified traditional livelihood systems; (iv) persons with disabilities in rural areas; and (v) underemployed and unemployed rural youth owning little or no land; and (vi) female-headed households.

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<sup>1</sup> Resilience refers to the target rural households' resilience to climate impacts.

## B. Components, outcomes and activities

13. PACT will have the following components:

- **Component 1: Community-led, climate-smart productive landscapes.** The component will support: (i) community-led equitable access and sustainable use of natural resources; (ii) development of inclusive and equitable water and local market-related infrastructure; (iii) market-led, climate-adapted enhancement of smallholder and pastoral productivity and production of target crop and livestock commodities; and (iv) improved dietary diversity. The expected outcome will be sustainable access and utilization of natural resources, better nutrition and increased agricultural productivity.
- **Component 2: Agribusiness development.** The component will support: (i) market access linkages; and (ii) tailored business support to young women and men agroentrepreneurs. The expected outcomes will be strengthened capacities of farmers' and pastoralists' organizations to improve access to finance; access to remunerative markets; and job creation for small-scale farmers and pastoralists, including women, men, youth and persons with disabilities.
- **Component 3: Institutional and policy strengthening and implementation support services.** This will be a cross-cutting component servicing the technical components and facilitating pathways for effective and inclusive functioning of the target value chains, from production to consumption. The component will support: (i) institutional strengthening; (ii) policy support; and (iii) implementation support services.

## C. Theory of change

14. Smallholder farmers and pastoralists face the following challenges: (i) land degradation; (ii) limited access to water and inefficient water management; (iii) extension services focused primarily on staple crops; (iv) vulnerability to climate change and limited access to improved, climate-smart technologies (inputs, mechanization, climate and weather information); (v) inadequate access to finance; (vi) limited social inclusion and malnutrition; (vii) limited access to remunerative markets and market infrastructure; (viii) limited business capacities and inclusivity of farmers' organizations; and (ix) weak policy and institutional framework.
15. PACT's theory of change is based on the assumption that commercialization of smallholder farmers and pastoralists facing the challenges above starts with inclusive community-led empowerment; the development and facilitation of household and community capacities for local action; support to access climate-smart, inclusive technologies and infrastructure; e-extension, nutrition and natural resource management services; and access to markets for improved production and income for men women and youth in the targeted areas.

## D. Alignment, ownership and partnerships

16. **Alignment with the Sustainable Development Goals (SDGs):** Successful implementation of PACT will contribute to the achievement of SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 6 (clean water and sanitation), SDG 8 (decent work and economic growth), SDG 10 (reduced inequalities), SDG 13 (climate action) and SDG 17 (partnership for the goals) by seeking partnerships with the international community, civil society, the private sector and other actors.
17. **Alignment with national and IFAD strategies:** PACT reflects national priorities, including smallholder agriculture, rural poverty reduction and enhanced food and nutrition security, as stated in the national Rural Development Policy and Strategies, National Agricultural Investment Plan, Agriculture Sector Ten-Year Plan,

Climate-Resilient Green Economy, Ethiopia's National Adaptation Plan and Transforming Ethiopian Food Systems.

18. PACT is aligned with IFAD's Strategic Framework 2016-2025, corporate priorities, and the current country strategic opportunities programme (COSOP) 2017-2023.
19. **Harmonization and partnerships:** PACT will seek to coordinate and harmonize with projects/programmes financed by IFAD, the government and development partners that support thematic areas related to its development objective. This will take advantage of synergies and avoid duplication. Potential collaboration partners will include the Ethiopian Agriculture Transformation Institute, Acorn/Rabobank, Vita, the Japan International Cooperation Agency and the Food and Agriculture Organization of the United Nations.

## **E. Costs, benefits and financing**

20. Total programme costs amount to US\$185.559 million over the seven-year implementation period. The financing gap of US\$2.011 million may be sourced through subsequent performance-based allocation system cycles or cofinancing identified during implementation.
21. According to the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this programme is US\$34.948 million.

### **Programme costs**

22. PACT will be funded by the following financiers: (i) IFAD, with a Twelfth Replenishment of IFAD's Resources (IFAD12) performance-based allocation grant of US\$78 million and a US\$11.553 million grant through ASAP+; (ii) a GTM/BMGF grant of US\$4.990 million; (iii) a EC grant of US\$19.953 million; (iv) a contribution of US\$2.011 million from a yet-to-be-identified financier; (v) the Inclusive Green Financing Initiative (IGREENFIN), with a loan of US\$35.013 million, subject to Green Climate Fund approval; (vi) a Government of Ethiopia contribution of about US\$24.309 million (including waived duties and taxes and a direct contribution); (vii) the private sector (enterprises, associations, unions, cooperatives), with a contribution of US\$3.657 million; and (viii) beneficiaries, with about US\$6.076 million in contributions (in kind and cash). The overall recurrent costs are 4.2 per cent for the total programme, while under IFAD financing they are 8.46 per cent, which is within acceptable limits.



Table 1

**Programme costs by component, subcomponent and financier**

(Thousands of United States dollars)

Component/ subcomponent	IFAD grant		ASAP+		GTM/BMGF		EC		IGREENFIN		Beneficiaries		Private sector		Borrower/ recipient		Financing gap		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	In kind	%	Amount	%	Amount	%
<b>A. Component 1: Community-led, climate-smart productive landscapes</b>																				
1. Subcomponent 1.1. Community-led, climate-resilient development and natural resource management	1 776	6	4 602	14	3 726	12	-	-	13 474	42	5 430	17	-	-	3 114	10	-	-	32 122	17
2. Subcomponent 1.2. Climate-resilient infrastructure development	50 789	45	-	-	-	-	19 953	18	21 000	19	4	-	1 362	1	20 162	18	-	-	113 271	61
3. Subcomponent 1.3. Market-oriented production of selected food commodities and improved productivity	4 279	31	6 951	50	1 264	9	-	-	539	4	643	5	-	-	368	3	-	-	14 043	8
<b>Subtotal component 1: Community-led, climate-smart productive landscapes</b>	56 845	36	11 553	7	4 990	3	19 953	13	35 013	22	6 076	4	1 362	1	23 644	15	-	-	159 436	86
<b>B. Component 2: Agribusiness development</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Subcomponent 2.1. Market access linkage support	4 763	73	-	-	-	-	-	-	-	-	-	-	1 751	27	20	0	-	-	6 534	4
2. Subcomponent 2.2. Support to agroentrepreneurs, both women and men	561	18	-	-	-	-	-	-	-	-	-	-	543	17	0	-	2 011	65	3 115	2
<b>Subtotal component 2: Agribusiness development</b>	5 324	55	-	-	-	-	-	-	-	-	-	-	2 294	24	20	0	2 011	21	9 649	5
<b>C. Component 3: Institutional and policy strengthening and implementation support services</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Subcomponent 3.1: Institutional strengthening and policy support	330	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	330	0
2. Subcomponent 3.2: Programme coordination and implementation support services	15 498	96	-	-	-	-	-	-	-	-	-	-	-	-	646	4	-	-	16 144	9
<b>Subtotal component 3: Institutional and policy strengthening and implementation support services</b>	15 829	96	-	-	-	-	-	-	-	-	-	-	-	-	646	4	-	-	16 474	9
<b>Total</b>	<b>77 997</b>	<b>42</b>	<b>11 553</b>	<b>6</b>	<b>4 990</b>	<b>3</b>	<b>19 953</b>	<b>11</b>	<b>35 013</b>	<b>19</b>	<b>6 076</b>	<b>3</b>	<b>3 657</b>	<b>2</b>	<b>24 309</b>	<b>13</b>	<b>2 011</b>	<b>1.1</b>	<b>185 559</b>	<b>100</b>

Table 2

**Programme costs by expenditure category and financier**

(Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD grant</i>		<i>ASAP+</i>		<i>GTM/BMGF</i>		<i>EC</i>		<i>IGREENFIN</i>		<i>Beneficiaries</i>		<i>Private sector</i>		<i>Borrower/recipient</i>		<i>Financing gap</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>In kind</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<b>Investment costs</b>																				
<b>A. Goods</b>																				
1. Equipment and materials	241	93	-	-	-	-	-	-	4	2	-	-	-	-	14	5	-	-	259	0
2. Vehicles	2 843	96	-	-	-	-	-	-	-	-	-	-	-	-	118	4	-	-	2 961	2
3. Goods, services and inputs	926	58	111	7	89	6	-	-	-	-	14	1	-	-	453	29	-	-	1 592	1
<b>Subtotal Goods</b>	4 010	83	111	2	89	2	-	-	4	0	14	0	-	-	585	12	-	-	4 813	3
B. Works	45 423	53	-	-	-	-	18 373	22	-	-	4	-	1 362	2	20 162	24	-	-	85 324	46
C. Training and workshops	9 085	27	11 221	33	4 724	14	-	-	-	-	4 745	14	283	1	2 173	7	1 371	4	33 602	18
D. Consultancies	8 214	76	221	2	178	2	1 580	15	-	-	326	3	4	-	298	3	9	0	10 830	6
E. Grants and subsidies	1 882	42	-	-	-	-	-	-	-	-	-	-	2 007	44	0	-	632	14	4 520	2
F. Credit Line	-	-	-	-	-	-	-	-	35 009	95	988	3	-	-	700	2	-	-	36 696	20
<b>Total investment costs</b>	68 613	39	11 553	7	4 990	3	19 953	11	35 013	20	6 076	4	3 657	2	23 918	14	2 011	1	175 784	95
<b>Recurrent costs</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A. Operating costs	2 488	96	-	-	-	-	-	-	-	-	-	-	-	-	104	4	-	-	2 592	1
B. Salaries and allowances	6 896	96	-	-	-	-	-	-	-	-	-	-	-	-	287	4	-	-	7 183	4
<b>Total recurrent costs</b>	9 384	96	-	-	-	-	-	-	-	-	-	-	-	-	391	4	-	-	9 775	5
<b>Total</b>	<b>77 997</b>	<b>42</b>	<b>11 553</b>	<b>6</b>	<b>4 990</b>	<b>3</b>	<b>19 953</b>	<b>11</b>	<b>35 013</b>	<b>19</b>	<b>6 076</b>	<b>3</b>	<b>3 657</b>	<b>2</b>	<b>24 309</b>	<b>13</b>	<b>2 011</b>	<b>1</b>	<b>185 559</b>	<b>100</b>

Table 3

**Programme costs by component and subcomponent and programme year (PY)**

(Thousands of United States dollars)

Component/ subcomponent	PY1		PY2		PY3		PY4		PY5		PY6		PY7		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>A. Component 1: Community-led, climate-smart productive landscapes</b>																
1. Subcomponent 1.1. Community-led, climate-resilient development and natural resource management	5 435	43	8 031	20	5 308	12	5 014	12	5 748	20	2 587	18	-	-	32 122	17
2. Subcomponent 1.2. Climate-resilient infrastructure development	359	3	22 959	57	32 227	72	29 956	73	18 255	62	8 981	61	533	21	113 271	61
3. Subcomponent 1.3. Market-oriented production of selected food commodities and improved productivity	924	7	5 418	13	3 967	9	2 423	6	735	3	481	3	96	4	14 043	8
<b>Subtotal component 1: Community-led, climate-smart productive landscapes</b>	6 717	53	36 408	90	41 502	92	37 393	91	24 738	85	12 049	82	629	25	159 436	86
<b>B. Component 2: Agribusiness development</b>																
1. Subcomponent 2.1. Market access linkage support	261	2	1 241	3	1 427	3	1 661	4	1 307	4	637	4	-	-	6 534	4
2. Subcomponent 2.2. Support to agroentrepreneurs, both women and men	87	1	691	2	505	1	510	1	507	2	514	3	300	12	3 115	2
<b>Subtotal component 2: Agribusiness development</b>	349	3	1 932	5	1 931	4	2 171	5	1 814	6	1 152	8	300	12	9 649	5
<b>C. Component 3: Institutional and policy strengthening and implementation support services</b>																
1. Subcomponent 3.1: Institutional strengthening and policy support	-	-	279	1	51	0	-	-	-	-	-	-	-	-	330	0
2. Subcomponent 3.2: Programme coordination and implementation support services	5 512	44	1 672	4	1 474	3	1 675	4	2 685	9	1 518	10	1 608	63	16 144	9
<b>Subtotal component 3: Institutional and policy strengthening and implementation support services</b>	5 512	44	1 951	5	1 525	3	1 675	4	2 685	9	1 518	10	1 608	63	16 474	9
<b>Total</b>	<b>12 578</b>	<b>100</b>	<b>40 292</b>	<b>100</b>	<b>44 958</b>	<b>100</b>	<b>41 239</b>	<b>100</b>	<b>29 237</b>	<b>100</b>	<b>14 719</b>	<b>100</b>	<b>2 538</b>	<b>100</b>	<b>185 559</b>	<b>100</b>

### **Financing and cofinancing strategy and plan**

23. PACT will be financed through the contributions indicated in paragraph 22.

### **Disbursement**

24. Disbursements will be based on six-month treasury forecasts, which will be presented in quarterly interim financial reports (IFRs). PACT's disbursement profile is deemed to be feasible under IFAD's liquidity management policy.

### **Summary of benefits and economic analysis**

25. Beneficiary households will increase their annual net financial income; the aggregate financial internal rate of return is 33.9 per cent, well above the opportunity cost of capital in Ethiopia (7.9 per cent). The economic internal rate of return is 17 per cent, well above the opportunity cost of capital. The economic net present value is estimated at about US\$83.7 million over the 20-year period of the analysis. The discount rate employed in the economic analysis is 5 per cent.
26. The positive results depict a strong grounding, as shown in the sensitivity and risk analyses for adverse situations, such as cost overruns, lower prices for the target group's agricultural products, a reduction in the rate of adoption, as well as for all risk categories, including climate risk.

### **Exit strategy and sustainability**

27. Development of the exit and sustainability strategy has been ensured at the following levels:
- **Sustainability in farming and market-led systems.** Community-led environmental protection will be a key feature of PACT that ensures ownership and maintenance of sustainable land management practices. Market-led production and market linkages will be the basis for the sustainability of PACT and exiting.
  - **Community empowerment and strengthening of institutions.** PACT will empower communities and strengthen institutions for sustainable management of investments.
  - **Investments in human social capital.** Interventions, such as gender-transformative approaches, nutrition social and behavioural change and youth empowerment mechanisms will be key to redressing social imbalances and improving the livelihoods and quality of life of individuals, households and communities.

## **III. Risk management**

### **A. Risks and mitigation measures**

28. The overall inherent risks are classified as substantial and the residual risks as moderate (see appendix III). The overall risk summary is presented in table 4.

Table 4

**Overall risk summary**

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	High	Substantial
Sector strategies and policies	Moderate	Moderate
Environment and climate context	Substantial	Moderate
Project scope	Moderate	Moderate
Institutional capacity for implementation and sustainability	Substantial	Moderate
Financial management	Substantial	Substantial
Project procurement	Moderate	Low
Environment, social and climate impact	Moderate	Low
Stakeholders	Substantial	Moderate
<b>Overall</b>	<b>Substantial</b>	<b>Moderate</b>

**B. Environmental and social category**

29. The environmental and social category of PACT is **substantial**. The risks will be environmental degradation and pollution, occupational health, conflict, displacement and limited access to resource use. Accordingly, an environmental, social and climate management framework (ESCMF) and plans for free prior informed consent, pest management and labour assessment and management have been prepared. A detailed social development plan will be prepared during the early implementation phase.

**C. Climate risk classification**

30. The climate risk in PACT is **substantial**. The main risks revolve around the high exposure of the targeted rural communities to climate change and the limited adaptive capacity of their livelihoods, food production systems in particular. A targeted adaptation assessment, including prioritized adaptation measures, has been prepared and integrated into the programme components. The ESCMF includes measures to address climatic risks.

**D. Debt sustainability**

31. According to the World Bank-International Monetary Fund Debt Sustainability Analysis (DSA) of April 2020, Ethiopia is at high risk of external debt distress. Public and publicly guaranteed debt is deemed sustainable, although liquidity pressures have increased due to COVID-19. Ethiopia's debt vulnerabilities stem from rising debt servicing needs, an overvalued exchange rate and a small export base. The authorities have taken steps to reduce vulnerability by controlling external borrowing, re-profiling the debt service and committing to move toward a market-based exchange rate and foreign exchange market liberalization, which should improve foreign exchange availability and boost private sector activity and exports. The DSA is being updated in 2022.

**IV. Implementation****A. Organizational framework****Programme management and coordination**

32. Management of the PACT programme will largely follow PASIDP II management arrangements to allow continued efforts to bring in the lessons learned, achievements and experiences of PASIDP II and to enhance the sustainability and cumulative impacts of PACT. Programme institutional arrangements for coordination will be specified at three levels – federal, regional, and *woreda*. The Ministry of Agriculture will be the lead executing agency, delegating the role of lead executing agency to a federal programme coordination unit (FPCU) to be established at the federal level.

33. The IGREENFIN II financing will be implemented by the Development Bank of Ethiopia, following the programme arrangements of the Rural Financial Intermediation Program III. The programme activities will create a demand for financial services from IGREENFIN through microfinance institutions and rural savings and credit cooperatives.

#### **Financial management, procurement and governance**

34. The FPCU will be responsible for the overall financial management of PACT. It will be responsible for releasing funds against agreed annual workplans and budgets (AWPBs), disbursing funds to implementing entities and coordinating financial reporting for PACT. The regional programme coordination units (RPCUs) will be responsible for overseeing the financial operations of *woreda* offices as well as regional expenditure. Staffing for finance teams at each level is detailed in the project implementation manual (PIM). The memorandums of understanding (MoUs) to be signed between the Federal Government and participating regions, and between regions and *woredas*, will include financial management responsibilities at each level to ensure that they are clear and formalized. MoU signature will be a condition for disbursements of funds to the regions and *woredas*. An MoU will also be signed between the Development Bank of Ethiopia and the Ministry of Agriculture for the IGREENFIN to ensure coordination between the entities. At the federal level, designated accounts will be opened with corresponding operational accounts in local currency. Implementation will be reported in the Integrated Financial Management System. Participating regions and *woredas* will maintain dedicated bank accounts for receiving PACT funds from the federal and regional levels, and bank accounts will be opened to receive funds from the government based on AWPBs.
35. Programme financial reporting will be effected through quarterly IFRs. Harmonized financial reporting templates for all financiers will be prepared at start-up.
36. Overall, the institutional procurement capacity is rated as “moderate” risk. Therefore, PACT procurement activities for goods, works and services will be carried out according to the provisions of the country’s procurement and property regulations insofar as such provisions are consistent with IFAD’s Procurement Guidelines. All procurement documentation issued to bidders will comply with the requirements spelled out in: (i) Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations; (ii) IFAD’s Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse; (iii) IFAD’s Anti-Money Laundering and Countering the Financing of Terrorism Policy; and (iv) IFAD’s Social, Environmental and Climate Assessment Procedures (SECAP).
37. PACT-specific assessment provides for improvement in the following areas: (i) recruitment of programme-specific procurement officers at the federal and regional level; (ii) management of procurement records; (iii) improved contract management; (iv) integration of procurement planning in the budgeting process; and (v) procurement monitoring and reporting.
38. PACT will be audited by the Audit Service Corporation, the Supreme Audit Institution of Ethiopia, and will assure adherence to IFAD's policy on preventing fraud and corruption. The auditor’s annual work plan will provide adequate coverage of various institutions receiving programme funds and will cover all major risk areas. Draft audit terms of reference (ToRs) are annexed to the PIM, and ToRs will be subject to annual IFAD no objection.

#### **Target group engagement and feedback and grievance redress**

39. PACT will support participatory planning at the community level during which development priorities will be identified and consolidated in landscape development and investment plans. These plans will serve as the basis for target group engagement and be a key component of the monitoring and evaluation system.

Community-level organizations such as watershed management associations and infrastructure users' associations will also be involved in monitoring and ensuring accountability in delivery of the respective investments.

### **Grievance redress**

40. To ensure the transparency and fairness of programme interventions, a grievance redress management system will be established, and the programme will ensure awareness and adherence to grievance redress mechanism procedures at the community, *kebele*, and national levels. A grievance committee will be set up at the *woreda* level to inform and coordinate the relevant stakeholders and provide resources for resolution. The committee will maintain all records from complaint to final decision for future reference. It will also ensure that public participation and consultation is always part of the process in order to promote understanding and prevent unnecessary complaints and disputes.

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

41. **Planning.** The planning cycle will follow the Government of Ethiopia's planning and budgeting cycle. The cycle will commence with AWPB preparation, which will employ a bottom-up participatory approach, starting at the *kebele* level, following the decentralized administration framework and then be consolidated at the *woreda*, regional and federal levels. The approved AWPB will be the only mechanism through which programme resources will be spent and will serve as the basis for monitoring progress.
42. **Monitoring and evaluation.** Indicators will track the social and economic performance of target groups, with all person-based indicators disaggregated by sex, age and disability, where feasible. It will be coordinated by the Ministry of Agriculture and the FPCU and supported by the RPCUs. The monitoring and evaluation system will conform to IFAD's new Operational Results Management System, updated SECAP guidelines and Core Outcome Indicators Measurement Guidelines, as well as the existing Ministry of Agriculture monitoring and evaluation arrangements. A detailed monitoring and evaluation plan will be prepared at the start of implementation.
43. **Knowledge management, learning and communications.** Specific plans will be prepared for these aspects and integrated into the AWPB. Care will be taken to align knowledge management activities with the monitoring and evaluations system and outline the strategy for how information is to be obtained, analysed, and disseminated. To facilitate the dissemination of knowledge products, PACT will develop a website and a knowledge management portal with links to the Ministry of Agriculture website and social media, and short messaging services will be implemented.

### **Innovation and scaling up**

44. PACT will promote innovative approaches by leveraging digital technologies to scale up: (i) market-oriented production; (ii) business-to-business linkages through deal rooms; (iii) use of data to support market analytics with the Ethiopia Agriculture Transformation Institute in the implementation of the digital agriculture extension and advisory services' roadmap.
45. In partnership with Vita and Acorn/Rabobank, PACT is introducing and scaling up the community-led carbon finance programme for cookstoves and agroforestry.

## **C. Implementation plans**

### **Implementation readiness and start-up plans**

46. As a means of addressing potential start-up delays, a draft programme implementation manual, 18-month AWPB and procurement plan have been

prepared. Job descriptions for positions in the programme coordination units have been provided in the manual. The IFAD Country Office will provide any facilitation that may be needed to ensure that all conditions required for effectiveness are met in a timely manner. PACT will build on the existing structures and mechanisms of PASIDP II, facilitating a quick and smooth start-up.

### **Supervision, midterm review and completion plans**

47. **Supervision.** PACT will be supervised jointly by IFAD and the Government of Ethiopia to assess achievements and lessons learned and, when required, provide implementation support to ensure effective programme implementation and increasing the likelihood of achieving the programme's development objective.
48. **Midterm review.** A midterm review led by the Government, with IFAD participation, will be conducted halfway through programme implementation. During the midterm review, particular emphasis will be placed on assessing sustainability and implementation of the exit strategy. The midterm review process will also seek to identify any prevailing constraints and recommend reorientation, if required, to help PACT meet its objectives.
49. **Programme completion plans.** The programme completion review will be led by the Government of Ethiopia, in close coordination with IFAD. The main purposes of the completion review process will be to promote accountability, reflect on performance and elicit lessons learned to inform future programme/project design and define an appropriate post-programme strategy. As part of the completion activities, a beneficiary programme assessment will be conducted, whose findings will be used to inform the programme completion report.

## **V. Legal instruments and authority**

50. A financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.
51. The Federal Democratic Republic of Ethiopia is empowered under its laws to receive financing from IFAD.
52. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## **VI. Recommendation**

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

RESOLVED: that the Fund shall provide a Debt Sustainability Framework grant to the Federal Democratic Republic of Ethiopia in an amount of seventy-eight million United States dollars (US\$78,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario  
President



## **Negotiated financing agreement**

(To be made available prior to the session)

## Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				Progress reports/MIS	Annually	PACT-PCUs	1) 50% of persons receiving project support are women (based on National stat), 2) 40 % of persons receiving project support are the youth (50% of them are women, National Stat). 3) Pastoralists are assumed to be 15% of the target group 4) HHs that receive project support are 20% female headed (based on National Stat. 5) 5 members on average in one HH
	Males - Males	0	37500	75000				
	Females - Females	0	37500	75000				
	Young - Young people	0	30000	60000				
	Total number of persons receiving services - Number of people	0	75000	150000				
	Persons with disabilities - Number		3750	7500	Progress reports/MIS	Annually	PACT-PCMUs	
	1.b Estimated corresponding total number of households members							
	Household members - Number of people	0	375000	750000	Progress reports/MIS	Annually	PACT-PCUs	
	1.a Corresponding number of households reached							
	Women-headed households - Households	0	15000	30000				
Non-women-headed households - Households	0	60000	120000					
Households - Households	0	75000	150000					
Project Goal Contribute to poverty reduction and improved resilience in selected landscapes/woredas	Number of persons/households whose combined resilience has increased (CRI)				PCUs and PARM	Baseline, Midline and endline survey	PCUs and PARM	
	Total persons - Percentage (%)		40	75				
	Females - Percentage (%)		50	50				
	Males - Percentage (%)		50	50				
	IE.2.1 Individuals demonstrating an improvement in empowerment				COI Surveys	Baseline, Midline and endline survey	PCUs	
	Total persons - Percentage (%)		13	25				
	Females - Percentage (%)		13	25				
	Males - Percentage (%)		13	25				
Outcome Outcome 1: Enhanced sustainable and equitable access to natural resources and increased agricultural productivity	3.2.1 Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered				FAO Exact tool	Baseline and Endline	PCU and validated by ECG	Infrastructure is operational and well maintained (A) Community leaders and institutions embrace gender transformative approaches (A) All project beneficiaries will participate in SBCC interventions
	Hectares of land - Area (ha)		50000	100000				
	tCO2e/20 years - Number			11900000				
	tCO2e/ha - Number			-119.9				
	tCO2e/ha/year - Number			-6				
	1.2.4 Households reporting an increase in production				COI Surveys	Baseline, Midline and endline	PCU	
	Households - Percentage (%)		38	75				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				COI Surveys	Baseline, Midline and endline	PCU	
	Household members - Number of people		281250	562500				
	Households (%) - Percentage (%)		38	75				
Households (number) - Households		56250	112500					
Output Output 1.1 Community led	3.1.4 Land brought under climate-resilient practices				Progress Reports/MIS	Annually	PCU	Based on 15000ha under irrigation and 45000 from rainfed area and a ratio of 1 to
	Hectares of land - Area (ha)		50000	100000				

climate-resilient and natural resources management	ASAP+ 1. Poor smallholder household members supported in coping with the effects of climate change				Progress Reports/MIS	Annually	PCU	3. 150 communities from 90 targeted Woredas. 1 Woreda is expected to have at least 2 Kebeles benefiting
	Total household members - Number		75000	150000				
	Males - Number		37500	75000				
	Females - Number		37500	75000				
	Young - Number		30000	60000				
Output Output 1.2 Climate resilient infrastructure developed	1.1.2 Farmland under water-related infrastructure constructed/rehabilitated				Progress Reports/MIS	Annually	PCU	Irrigation development acceptable in pastoral areas (A), Adequate water sources in dry areas(A)
	Hectares of land - Area (ha)		5000	15000	Progress Reports/MIS	Annually	PCU	
	2.1.6 Market, processing or storage facilities constructed or rehabilitated							
	Total number of facilities - Facilities		130	260				
Output Output 1.3: Market-Oriented and Nutrition-sensitive Climate-resilient Food Production and Productivity improved	1.1.4 Persons trained in production practices and/or technologies				Progress Reports/MIS	Annually	PCU	All project beneficiaries will access training on production practices and or technologies All project beneficiaries will participate in SBCC interventions
	Total persons trained in crop - Number of people		75000	150000				
Outcome Outcome 2: Increased access to remunerative markets of targeted value chains	2.2.1 Persons with new jobs/employment opportunities				COI Surveys	Baseline, Midline and Endline	PCU	Banks are willing to finance smallholder farmers (A), Young agripreneurs are reliable economic agents(A) No. of members in a cooperative Groups with partnership/agreements (A) 300 Youth supported enterprises can access funding (A)
	Young - Young people		3000	6000				
	Total number of persons with new jobs/employment opportunities - Number of people		7500	15000				
Output Output 2.1: Market Access and Business to Business linkages established	2.1.3 Rural producers' organizations supported				Progress report/MIS	Annually	PCU	Based on 150 primary Cooperatives and 12 Unions.
	Rural POs supported - Organizations		81	162				
	Rural POs supported that are headed by women - Organizations		20	40				
Output Output 2.2: Access to Financial Services for Producers and Agri-businesses improved	2.1.1 Rural enterprises accessing business development services				Progress reports/MIS	Annually	PCU	Includes 300 Youth Led enterprises and 150 Cooperatives and unions Members Funding available for the entrepreneur training
	Rural enterprises - Enterprises		225	450				
	Women in leadership position - Females		15300	30600				
Outcome Outcome 3: Institutions and policy capacity strengthened	SF.2.1 Households satisfied with project-supported services				COI Surveys	Baseline, midline and endline	PCU	New agriculture and rural development policies are approved (A)
	Household members - Number of people		318750	637500				
	Households (%) - Percentage (%)		43	85				
	Households (number) - Households		63750	127500				
	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment				MoA Records	Completion	MoA and PCU	
	Number - Number			2				
Output Output 3.1: Policy support & engagement in PACT-related focused areas strengthened	Policy 1 Policy-relevant knowledge products completed				Progress reports/MIS	Annually		
	Number - Knowledge Products		2	4				
Output Output 3.2: Institutions strenghened	Supported Rural and Government Institutions				Progress Reports/MIS	Annually		
	Institutions - Number		150	300				

## Integrated programme risk matrix

Risk categories and subcategories	Inherent	Residual
<b>Country context</b>	<b>High</b>	<b>Substantial</b>
<b>Political commitment</b>	<b>High</b>	<b>Moderate</b>
Risk(s): The current political instability expected to remain high for some time in 2022, given the ongoing civil conflict in Tigray, Amhara and Afar regions. There is also localized conflict between unidentified armed groups and federal government in Oromia and Benshangul Gumuz regions. This will lead to inaccessibility of these regions and stoppage of project design and implementation.		
Mitigations: The African Union is forging ahead with mediation talks in Ethiopia to resolve the issues. There is also initiative from the Government of Ethiopia side to have a national dialogue which is believed to maintain peace, justice, democracy, national unity, consensus and reconciliation among the Ethiopian peoples. PACT will take a phased and gradual approach to implementation, and will assess risks before expanding to conflict-affected areas.		
<b>Governance</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Governance structures of government, community stakeholders, private sector and other stakeholders engaged in project activities may not equally benefit all segments of the community, resulting in elite capture.		
Mitigations: The project will foster collaboration between government institutions, private sector players and farmers; supporting the development of mutually beneficial partnerships. Adequate planning, implementation and monitoring of activities will ensure stakeholders' engagement in the development of financially viable irrigation schemes and to promote farming as a business. Adherence to the PIM (a tool for transparency that provides, inter alia, the criteria and procedures for selecting the beneficiaries of the Project activities) through on-going implementation support and supervision, will ensure full inclusivity and good governance.		
<b>Macroeconomic</b>	<b>High</b>	<b>High</b>
Risk(s): Unstable macro-economic fundamentals. According to African Economic Outlook (AOE) 2021, Ethiopia's economy grew by 6.1 percent in 2020. The fiscal deficit, including grants, increased slightly during 2020, financed mainly by treasury bills. In 2021, the average inflation rate in Ethiopia was 26.78 percent as compared to the previous year. The official exchange rate is under pressure and devaluing steadily. Service sector exports declined by about six percent, mostly because of lower revenue from Ethiopian Airlines. Foreign direct investment (FDI) fell 20 percent to 2.2 percent of Gross Domestic Product (GDP), and personal remittances declined by 10 percent to 5.3 percent of GDP. The current conflict in country and the war in Ukraine, will worsen the situation.		
Mitigations: The Monetary policy is expected to remain flexible in response to the government's financing requirements. The government is expected to do further reforms in public finance and investment management to improve the efficiency of public expenditures and managing inflation. IFAD will set price contingencies at higher levels to mitigate potential price increases due to higher inflation.		
<b>Fragility and security</b>	<b>High</b>	<b>Substantial</b>
Risk(s): The conflict in North Ethiopia is not yet been resolved. There are internal conflicts in some areas in Oromia, Benshangul Gumuz. Furthermore, there were clashes between government and Al-Shabaab in Somali regions. The country is also vulnerable to recurrent drought and flooding with devastating impacts.		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
Mitigations: There is a hope that the current effort by African Union to mediate talks between the federal government and Tigray People's Liberation Front will end the conflict. Moreover, the initiative from the Government of Ethiopia to have a national dialogue which is believed to maintain peace, justice, democracy, national unity, consensus and reconciliation among the Ethiopian peoples will address localized conflict. PACT will be implemented in regions that are not highly impacted by the internal war. Climate screening was undertaken and climate resilience measures are included in the programme to reduce, if not avoid, climate impacts.		
<b>Sector strategies and policies</b>	<b>Moderate</b>	<b>Moderate</b>
<b>Policy alignment</b>	<b>Moderate</b>	<b>Moderate</b>
Risk(s): Primarily, there is the Ten-Year perspective plan of Ethiopia (2021-2030) guiding the overall country's plan for five years. Specifically, there is also Agriculture & Rural Development Policies & Strategies to guide efforts and investments in smallholder focused investment. There is a regulatory framework to promote private sector engagement. However, the actual implementation of these policies is lagging behind in some regions because of the current situation in the country.		
Mitigations: In order to address the risk associated with implementation of the policies, the project will assist the Government in setting up a vibrant monitoring tool to see how effectively the policies are implemented.		
<b>Policy development &amp; implementation</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): The Ten Years Agriculture & Rural Development Policies & Strategies are not well familiarised and getting implemented because resource constraints and lack of focus as there was competing priorities in the past one year (security issues).		
Mitigations: The project will support the Rural Economic Development and Food Security Sector working Group platform to frequently assess the progress of the implementation of the policies. The project will also implement some of the interventions defined in the policies and strategies. The World Bank will be supporting the government in developing new policies following the approval of a new policy framework.		
<b>Environment and climate context</b>	<b>Substantial</b>	<b>Moderate</b>
<b>Project vulnerability to environmental conditions</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): Land degradation is increasing at an alarming rate. The most important forms of land degradation are soil erosion, nutrient depletion, soil compaction, and increased salinization and acidity. The annual net erosion is 940 million tons a year, or 18 tons/ha/year and it may be increased by 7-10 percent per year. Approximately 11 million ha of land are salt affected soils. The current rate of deforestation is estimated at 150,000 to 200,000 hectares per year.		
Mitigations: Integrated Natural Resource Management activities will be implemented by the project as well as through the finance from IGREENFIN and ASAP+. The most important and appropriate mitigation actions will be physical and biological soil and water conservation activities, climate smart agriculture, landscape management including forestation and afforestation activities. Good lessons from PASIDP II (ASAP) will be scaled up.		
<b>Project vulnerability to climate change impacts</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): Ethiopia is the most vulnerable country to the impact of climate change. According to World Vulnerability Index and Notre Dame Global Adaptation Initiative (ND-GAIN) Matrix, Ethiopia is the 19th most vulnerable and 34th least ready country to the impact of climate change in the world. Climate variabilities, in the form of flood and drought, have long been affecting crop, livestock and forestry productivity, infrastructures, livelihood, water availability.		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
Mitigations: Climate resilient infrastructure development, crop and livestock productivity enhancement through the application of climate smart agriculture such as conservation agriculture, landscape management activities, awareness and capacity development will enhance resilience of the community and ecosystem.		
<b>Project scope</b>	<b>Moderate</b>	<b>Moderate</b>
<b>Project relevance</b>	<b>Low</b>	<b>Low</b>
Risk(s): The project is designed based on the available national policies and strategies on agriculture, climate change and water and energy. It has also adequately aligned to the recently approved ten-year strategic plan.		
Mitigations: Further alignment with the national adaptation plan (NAP), Nationally Determined contributions (NDCs), Climate Resilient Green Economy Strategy (CRGE) is needed.		
<b>Technical soundness</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): The project design will include new technical elements in carbon trading, private irrigation scheme management and potential joint ventures and contract farming, and ICT4D in mechanisation.		
Mitigations: Stronger partnership with expert organisations such as Vita and hello tractor will be developed, for knowledge exchange and expertise.		
<b>Institutional capacity for implementation and sustainability</b>	<b>Substantial</b>	<b>Moderate</b>
<b>Implementation arrangements</b>	<b>Moderate</b>	<b>Moderate</b>
Risk(s): Institutions are available but there might be a lack of adequate capacity in terms of manpower, skill, infrastructure as well as systems particularly at Region and Woreda level		
Mitigations: Capacity need assessment and tailored capacity development program, experience sharing, lessons from similar projects such as PASIDP II.		
<b>M&amp;E arrangements</b>	<b>Substantial</b>	<b>Low</b>
Risk(s): The inclusion of new elements may stretch the capacity of the M&E for the MoA.		
Mitigations: PASIDP II has had strong performance in M&E over the years. They have also included GIS and data dashboards as part of their M&E framework. To assist with new elements, the project will include capacity for ICT4D and carbon trading in the project staff. These will be supported by expert partnerships.		
<b>Procurement</b>	<b>Moderate</b>	<b>Low</b>
<b>Legal and regulatory framework</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): (i) Most of the central government institutions do not maintain databases or records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They prepare the performance report directly from the source document at the end. In addition, all central government institutions do not submit their procurement performance reports on time to the Federal Public Procurement and Property Administration Agency (FPPA). (ii) Out of six key procurement information (1. Legal and regulatory framework for procurement, 2. Government procurement plan, 3. Bidding opportunities, 4. Contract awards, 5. Data on resolution of procurement complaints, 6. Annual procurement statistics) only legal and regulatory framework for procurement and bidding opportunities are made available to the public through appropriate means.		
Mitigations: I IFAD can strongly encourage government through policy dialogue to accelerate the creation of a reliable record/database for monitoring procurement management, ensuring that central government institutions prepare accurate reports and submit them to the FPPA, so that the latter can populate the database. It is also important to ensure that accuracy and		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
completeness of reports are verified by the FPPA or by an external auditor. At project level, the systematic use of the Contract Monitoring Tool should be ensured so as to improve procurement monitoring. In addition, policy dialogue between IFAD and the Government should encourage the latter to improve the completeness of procurement information available to the general public. For example, the FPPA website could be used to ensure access to such information, as it is already the case for the legal and regulatory framework and bidding opportunities.		
<b>Accountability and transparency</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): (i) Complaints are not reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. Indeed, out of five members, only one is seen as independent, while the others are directly involved in procurement activities. (ii) Ethiopia has a score of 38/100 in 2020 in the Corruption Perception Index and ranked 96/198.		
Mitigations: The Government should be encouraged to ensure that national provisions on complaint system are applied, according to which and independent and functional system should be available. Members of the Complaint Review Board should be selected accordingly. (ii) Programme and the Lead executing agency to ensure that any individuals, firms and Government stakeholders involved in the implementation of PACT are well informed of the Revised IFAD's Policy on Preventing Fraud and Corruption in its activities and operations.		
<b>Capability in public procurement</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Within the Lead Implementing Agency, there is one Senior Procurement Officer at federal level and five Procurement Officers at regional level – one in each of the 5 target regions, handling IFAD project (PASIDP II) and World Bank project (Lowlands Livelihood Resilience Project in Somali region).		
Mitigations: Recruitment of additional procurement officers for the PACT programme and ensure sharing of knowledge and experience between new and existing procurement staff. IFAD will also provide training on Project procurement policies for the new staff.		
<b>Public procurement processes</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): (i) The PP for the current IFAD project (PASIDP II) was significantly delayed by late preparation of the AWPB. (ii) In the current IFAD project (PASIDP II), there are pseudo packaging as lotted activities are conducted separately in different implementing regions and there are instances where the planned procurement method has not been put to use.		
Mitigations: Mitigations: (i) The Lead executing agency to ensure that procurement planning and AWPB are joint activities between the procurement, finance and technical officers to ensure consistence and alignment of activities, guided by programme technical delivery to inform procurement plan and financial flow projections.		
<b>Financial management</b>	<b>Substantial</b>	<b>Substantial</b>
<b>Organization and staffing</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): There are three administrative levels of implementation of the programme which will have fiduciary responsibilities namely federal level that will have Federal Programme Coordination and Unit (FPCU), regional levels for each participating regional government that will have RPCUs and Woredas (districts) at lower levels where ground activities are actually carried out. Previous IFAD funded projects implemented through similar structures have had issues with timeliness and quality of financial reports from Woreda to the regions which has consistently led to delays in financial reports to RPCMUs and subsequent delays also to FPCMU. Another risk is that PACT also is a		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
complex programme due to multiple financiers. While PMU shall be made up of relevantly qualified personnel with appropriate expertise in their chosen fields, there may be lack of staff familiarity with IFAD, EU and GCF procedures.		
Mitigations: In order to mitigate the risk of quality and timeliness of financial reporting from Woreda, there are Woreda accountants proposed who will ensure accuracy, completeness and timelines of financial reports from Woreda and ensuring the programme bank account at Woreda is well reconciled. There will be MoUs between Federal Government and participating Regional Governments and also between the participating Regional Governments and their participating Woredas which will stipulate requirement on financial reporting. Any non-compliance RPCUs/Woredas may have their disbursements suspended as a penalty for non-compliance. Regarding familiarity with IFAD, EU and GCF procedures, FMD will provide capacity building training to the Finance Staff who will be selected competitively. The capacity building will include familiarization with procedures on financial reporting, expenditures categorizations across components, categories, financial reporting timelines and other financial management related to the Programme.		
<b>Budgeting</b>	<b>High</b>	<b>Substantial</b>
Risk(s): The programme has multiple financiers namely IFAD, ASAP+, GTM, EU; IGREENFIN (GCF), Government Contribution, Beneficiaries contribution and potential carbon credit finances. There is a risk of mix-up in budgeting and expenditure allocations to these multiple financiers. There may also be a risk that annual work plans and budgets are not prepared or revised on a timely basis, and not executed in a coherent manner, resulting in funds not being available when needed, ineligible costs and reallocation of Programme funds and slow implementation progress.		
Mitigations: The Costables, PDR and PIM have adequate details on key activities to be implemented and sources of finances for these costs. Subsequently, the AWPB will be prepared with adequate details on financing for key activities to ensure adequate guidance to the accounting team in booking of the expenditure. The Ms-Excel AWPB will have a column to show financiers and proportion of financing should the activity be financed from several sources. The FPCU will coordinate the budget preparation processes with close coordination with RPCU and Woredas. Budget monitoring will be carried out periodically, at least on quarterly basis and any significant deviations discussed within the project for remedial actions. Approved budget will be mapped in the accounting system for ease of monitoring and aligning expenditure when posting.		
<b>Funds flow/disbursement arrangements</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): There is a risk of commingling of funds at the entity which will be provided with advances for implementation of programme activities. These includes Ministry of Finance which will receive advances from IFAD and Ministry of Agriculture through FPCU, RPCU and Woredas. Also, in addition to external development partners financing, there are Counterpart finances expected to be received from the Government of Ethiopia.		
Mitigations: To mitigate on risks of commingled funds and ease of accounting of any advance provided, funds will be held in Programme dedicated accounts for which there will be monthly bank accounts reconciliation and financial reports. All partnering institutions that will receive project funds will have sub-programme accounts for segregating the funds received. There will be monthly financial reports to FPCU for monitoring operations of sub-accounts and consolidation. All partnering institutions will sign MoUs clearly highlighting the requirements for a separate bank account and financial reporting requirements.		
<b>Internal controls</b>	<b>Substantial</b>	<b>Moderate</b>



<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
Risk(s): The FPCU will be responsible for overall financial management of the Programme. It will be responsible to release funds against agreed plans, drawn out of the approved AWPBs, disburse funds to implementing agencies and coordinate monitoring and financial reporting for the Programme as a whole. There may be a risk that appropriate controls over Programme funds are not in place, leading to the inefficient or inappropriate use of Programme resources.		
Mitigations: Internal controls have been instituted in the whole framework of financial and administrative procedures. The identified controls range from; proper record keeping and posting, authorization of accounting, procurement and administrative documents, balancing and checking, physical security of assets, double signing (approval) arrangements, to financial reporting and monitoring. There will be internal audit function to check overall compliance to internal controls and provide support towards improving systems, procedures and processes.		
<b>Accounting and financial reporting</b>	<b>High</b>	<b>Substantial</b>
Risk(s): There is a risk of delays in consolidation of programme financial reports at FPCMU which will be preparing consolidated financial reports for the program and inaccurate financial reporting due to the complex nature of the programme which has multiple financiers, categories and components. There are also possibility of delays and inaccuracies in financial reporting due to multiple administrative levels of project implementation that have fiduciary responsibilities i.e. FPCU, RPCU and Woredas (districts) at lower levels.		
Mitigations: To mitigate on risks on financial reporting an appropriate accounting system will be acquired capable of networking and inputting at regional levels with multiple analysis code for reporting on component, categories, financiers, for reporting quarter, cumulative for the year and cumulative since start of the programme including recording of memorandum data on in kind contribution (IKC). The system will be networked for direct entry at regional levels to ease reporting at FPCU. There will be harmonised financial reporting template for all financiers to ease financial reporting.		
<b>External audit</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): The project will be audited by the Audit Service Corporation (ASC), the Supreme Audit Institution of Ethiopia. There is a risks of inadequate audit coverage of the programme audit considering there are multiple regions and many Woredas which will be implementing the programme.		
Mitigations: A comprehensive audit coverage plan has been prepared which will ensure adequate audit coverage. The plan provides for adequate annual audits at FPCU, RPCUs and adequate proportions of Woredas under each RPCU which will be alternating to ensure regular reviews throughout the programme implementation of the project. The project will be audited by the Audit Service Corporation (ASC), which is the Supreme Audit Institution of Ethiopia. The auditor will prepare a work plan to ensure adequate coverage of the various institutions that receive Programme funds and cover all the major risk areas and adequate coverage as per coverage plan. The audit terms of reference will be approved by IFAD in advance in line with the guidance provided in the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed projects.		
<b>Environment, social and climate impact</b>	<b>Moderate</b>	<b>Low</b>
<b>Biodiversity conservation</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Climate change, use of agrochemicals as well as use of forest clearance may cause loss of biodiversity.		
Mitigations: Budgeted Climate adaptation and mitigation measures are adequately integrated into project components. As part of the ESCMF, Integrated Pest Management Plan is prepared to ensure environmentally friendly applications of agrochemicals. screening and implementation of		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
mitigation measures, integrated pest management system and compliance to SECAP and national law on environment.		
<b>Resource efficiency and pollution prevention</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): Wasteful/in-efficient use of water for irrigation and drinking. Construction of infrastructures such as irrigation schemes, storage facilities, market and application of pesticides and fertilizers will lead to pollution of environmental media such as water, soil and air.		
Mitigations: Capacity building and awareness creation will be organized for the Landscape Committees, Irrigation Water User Associations (IWUAs) and farmers to ensure efficient use of water. Furthermore, water use regulations and bylaws will be prepared and implemented. Compliance to SECAP and national law on pollution prevention and precautionary approaches and increase use of organic fertilizer.		
<b>Cultural heritage</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Some construction activities may impact historical, religious or cultural resources.		
Mitigations: Appropriate screening of project/sub project, consultation with responsible government representatives and communities as well as SECAP compliance.		
<b>Indigenous peoples</b>	<b>Low</b>	<b>Low</b>
Risk(s): All people in Ethiopia are considered indigenous. Pastoralist, vulnerable, and disadvantaged people may be impacted by project activities.		
Mitigations: Strictly follow IFAD's guidelines on targeting. The PASIDP II targeting strategy will ensure adequate number of vulnerable and disadvantage people have access to irrigation water. Geographical targeting, self and direct targeting will be applied in the project intervention areas. FPIC Plan was prepared and will be implemented to avoid or reduce adverse physical, social, or economic impacts on pastoralists. Furthermore, pastoral and agro-pastoral communities will be consulted during the LDIPs preparation.		
<b>Community health and safety</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Construction activities and use of agrochemicals, may have a negative impact on community health and safety. Furthermore, some project activities such as water ponds/diversions may cause water-borne or other vector-borne diseases (e.g., temporary breeding habitats), and/or communicable and non-communicable disease. COVID-19 is still potential health threat.		
Mitigations: Provision of PPE, Integrated Pest management practises and also deploying of COVID-19 preventing measures as well as SECAP compliance.		
<b>Labour and working conditions</b>	<b>Substantial</b>	<b>Moderate</b>
Risk(s): Project activities may cause forced or child labour, gender-based violence, discriminatory and unsafe/unhealthy working conditions.		
Mitigations: Awareness creation and capacity development to ensure project activities are conducted in a safe working environment. Contractor contracts will include clauses to ensure adequate working conditions. Furthermore, GRM system will be established/strengthened so that affected people have access to address and resolve their complaints. Sensitisation will also be done in collaboration with relevant authorities to prevent Gender-Based-Violence. As part of the ESCMF, Labour Management Plan is prepared and will be implemented to ensure presence of conducive working environment and avoid/reduce exploitative labour practices.		
<b>Physical and economic resettlement</b>	<b>Moderate</b>	<b>Moderate</b>
Risk(s): The proposed infrastructure development such as irrigation schemes, warehouses, rural roads may cause physical, economic and involuntary resettlement and limit access to natural resources.		

<b>Risk categories and subcategories</b>	<b>Inherent</b>	<b>Residual</b>
Mitigations: Adherence to SECAP and national laws entails screening of project activities and elaborating ESCMPs for the infrastructure development. FPIC plan is drafted. Resettlement Action Framework (RAF) will be prepared to guide the identification and consultations of Project Affected People (PAP), quantification of physical and economic resettlements as well as estimate compensations. Depending on the number of PAPs, RAF will also guide the preparation of RAP. Furthermore, PMUs will work hand in hand with Woreda and Kebele administrations to ensure that PAPs are adequately consulted and compensations effected prior to commencement of any physical activities. GRM should be strengthened to ensure timely and satisfactory responses to complaints.		
<b>Greenhouse gas emissions</b>	<b>Low</b>	<b>Low</b>
Risk(s): Use of chemical fertiliser and livestock fattening may cause emission of small amounts of GHGs. Generally, the project's contribution to GHG emission is minor.		
Mitigations: The programme will not cause deforestation to increase arable land for crop production. Rather, it will create mitigation potential of 11.9 Mt CO <sub>2</sub> eq. over the project lifetime (EX-ACT Carbon Balance tool). These potentials are because of the intensive Integrated Natural Resource Management, Climate-smart Agriculture, Improved cookstoves and biogas. Furthermore, as per Ethiopia's climate policy, much focus will be given to low emitting animals such as poultry, sheep and goats.		
<b>Vulnerability of target populations and ecosystems to climate variability and hazards</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Programme interventions may increase exposure of communities, ecosystems and infrastructure to climate shock.		
Mitigations: PACT will support interventions that will enhance resilience of communities, infrastructure and ecosystem to the impact of climate change. Sub projects will be screened against climate impacts and appropriate mitigation/adaptation measures will be adequately integrated into project design.		
<b>Stakeholders</b>	<b>Substantial</b>	<b>Moderate</b>
<b>Stakeholder engagement/coordination</b>	<b>High</b>	<b>Moderate</b>
Risk(s): All stakeholders may not be adequately identified and engaged during project and implementation. Lack of budget and COVID related restrictions may affect stakeholder participation as needed.		
Mitigations: Budgeted stakeholder engagement plan will be prepared to ensure (i) adequate mapping of stakeholder and beneficiaries, (ii) their demands are incorporated in the design, (iii) compliments are resolved in fair and timely manners and (iv) required capacity and awareness are in place.		
<b>Stakeholder grievances</b>	<b>Moderate</b>	<b>Low</b>
Risk(s): Targeting of landscapes and beneficiaries, construction activities, water and distributions, poor quality service are potential sources of grievances. GRM system may be non-existent or not functioning well and the GRM committees may not have the required capacity to resolve complaints in fair and timely manner.		
Mitigations: Proper implementation of the targeting strategy/criteria, provision of quality services and establishment/strengthening of GRM system, awareness creation to complainants, capacity development/training to GRM committee.		