

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



ERITREA

**DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS
PROGRAM (DRSLP-IV)**

APPRAISAL REPORT

AHAI DEPARTMENT

January 2016

TABLE OF CONTENTS

Currency Equivalents.....	i
Fiscal Year	i
Weights and Measures	i
Acronyms and Abbreviations	ii
Loan and Grant Information	iv
Project Summary.....	v
Results Based Project Logical Framework	vi
Project Timeframe	viii
I – STRATEGIC THRUST & RATIONALE	1
1.1. Project Linkages with Country Strategy and Objectives	1
1.2. Rationale for Bank’s Involvement.....	1
1.3. Development Partners Coordination.....	3
II – PROJECT DESCRIPTION	3
2.1. Project Components.....	3
2.2. Technical Solution Retained and Other Alternatives Explored.....	4
2.3. Project Type.....	5
2.4. Project Cost and Financing Arrangement.....	5
2.5. Project’s Target Area and Population.....	7
2.6. Participatory Process for Project Identification, Design and Implementation	7
2.7. Bank Group Experience, Lessons Reflected in Project Design.....	8
2.8. Key Performance Indicators	9
III – PROJECT FEASIBILITY	9
3.1. Economic and Financial Performance	9
3.2. Environmental and Social Impacts	10
IV – IMPLEMENTATION.....	13
4.1. Implementation Arrangements	13
4.2. Procurement Arrangements:	13
4.3. Financial Management.....	15
4.4. Monitoring	16
4.5. Governance	17
4.6. Sustainability	17
4.7. Risk Management	18
4.8. Knowledge Building.....	18
V – LEGAL INSTRUMENTS AND AUTHORITY.....	19
5.1. Legal Instruments	19
5.2. Conditions associated with Bank’s intervention.....	19
5.3. Compliance with Bank Policies.....	19
VI – RECOMMENDATION	19

Appendix I: Country’s Comparative Socio-Economic Indicators

Appendix II: AfDB’s Active Portfolio in the Eritrea (14 November 2016)

Appendix III: Map of the Project Area

Currency Equivalents

As of November 2016

Currency Unit	=	Eritrea Nakfa (ERN)
1 UA	=	21.79 ERN
1 UA	=	1.37 USD
1 UA	=	1.26 EUR
1 USD	=	15.86 ERN

Fiscal Year

July 1 – June 30

Weights and Measures

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

Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ASAL	Arid and semi-arid land
CPIA	Country Policy and Institutional Assessment
CPS	Country Procurement System
CQS	Consultant Qualification Selection
DP	Development Partners
DPCT	District Project Coordinating Team
DRSLP I	Drought Resilience and Sustainable Livelihoods Programme Project I
DRSLP II	Drought Resilience and Sustainable Livelihoods Programme Project II
EARC	East Africa Regional Resource Centre
FAO	Food and Agriculture Organization
FHH	Female Headed Households
GEF	Global Environmental Facility
GHA	Greater Horn of Africa
GoSE	Government of the State of Eritrea
GNP	General Procurement Notice
HoA	Horn of Africa
HH	House Hold
I-CSP	Interim Country Strategy Paper
IGA	Income Generating Activities
IGAD	Inter-Governmental Authority on Development
ISS	Integrated Safeguards Systems
LCA	Local Currency Account
LCB	Limited Competition Bidding
LCS	Least Cost Selection
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MTP	Medium Term Plan
NCB	National Competitive Bidding
NEMA	National Environmental Management Authority
NGO	Non-Governmental Organisation
NPP	National Procurement Policy
NUEW	National Union for Eritrean Women
OCB	Open Competition Bidding
PBA	Performance Based Allocation
PCT	Project Coordination Team
PCU	Project Coordination Unit
PDNA	Post Disaster Needs Assessment
PMP	Procurement Methods and Procedures
PSC	Project Steering Committee
QCBS	Quality and Cost Based Selection
RFP	Request for Proposals
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
SA	Special Account

SDG	Sustainable Development Goals
SL	Shortlist
UA	Unit of Account
UNDB	United Nations Development Business
WUA	Water Users Association

Loan and Grant Information

Client's information

RECIPIENT:	The State of Eritrea
EXECUTING AGENCY:	Ministry of Agriculture

Financing plan

Source	Amount (million UA)*	Instrument
ADF Loan	2.95	Loan Agreement
ADF Grant	2.36	Grant Agreement
Government and beneficiaries	0.74	Counterpart funding
TOTAL COST	6.05	
Loan Period	40 Years	
Grace Period	10 Years	
Interest Rate	0%	
FIRR, NPV (base case)	15% (NPV = US\$ 1,185 250).	
EIRR (base case)	17% (NPV = US\$ 1,802,750).	

Important Financial Information (ADF Loan and ADF Grant)

	ADF Loan	ADF Grant
Grant/Loan Currency	UA	UA
Type of Interest	N/A	N/A
Interest Rate Margin	N/A	N/A
Commitment Charge/Fee	0.5%	N/A
Service Charge	0.75% on disbursement/outstanding loan	N/A
Tenor	40 years	N/A
Grace Period	10 years	N/A

Timeframe - Main Milestones (expected)

Concept Note approval	July 2016
Project approval	December 2016
Effectiveness	March 2017
Last Disbursement	December 2020
Closing date	31 July 2021

Project Summary

1. Project Overview: The proposed Eritrea-Drought Resilience and Sustainable Livelihoods Project (DRSLP - IV) will be an expansion of the scope of the existing DRSLP II Project. It will be implemented in six Zobas of the country (Anseba, Debub, Debubawi Keih Bahri, Gash Barka, Maekel and Semeinawi Keih Bahri). The project will support the efforts of the Government of the State of Eritrea (GoSE) that have already started under DRSLP-II to improve the drought resilience of the pastoral and agro-pastoral communities of the target areas. The project will consist of four components: (i) Natural Resources Management; (ii) Support to Livelihood Diversification; (iii) Capacity Building; and (iv) project Management. It will be implemented over a period of 3 years (2017-2022). Total project cost is estimated at UA 6.05 million with UA 5.31 million coming from the Bank's Pillar I of the Transition Support Facility (TSF) as loan (UA 2.95 million) and grant (UA 2.36 million) and the Government and Beneficiaries contributing UA 0.74 million. The project will be executed by the Ministry of Agriculture (MoA) under the existing PMU of the Bank's funded DRSLP-II.

2. Needs Assessment: The overall objective of the project is to contribute to the national goal of improving food and nutrition security, increase employment rate and contribute to poverty reduction. In 2008 the Bank commissioned a regional study on Sustainable Livestock Development (SLD) in the Horn of Africa (HoA). The Bank also, jointly with IGAD and "Observatoire du Sahara et du Sahel", conducted Mapping, Assessment and Management of Trans-boundary Water Resources in the IGAD Sub-Region in 2011. These two studies, during which extensive consultation took place with Government Officials, non-Government institutions and beneficiary communities to appreciate the needs and their prioritization, formed the basis for the design of the DRSLP. This consultative and participatory approach in the project formulation continued throughout preparation and appraisal of Project II. The need for this project emanates from the necessity to address the damages and losses sustained by the population, especially the poor and vulnerable communities of the arid and semi-arid lands (ASALs), during the recurrent drought in order to restore a sense of normalcy and resumption of economic and social activities. The livestock and crop sub-sectors are found to sustain very significant share of the damage, as well as the water systems due to the lowering of the groundwater table.

3. Bank's Added Value: The Bank's comparative advantage and added value to undertake this project is based on its experience acquired through its long and successful engagement with the Government of the State of Eritrea, supporting the Government in construction of national and community infrastructure, and community initiatives through group formation for managing natural resources.

4. Knowledge Management: The knowledge gained through the implementation of DRSLP I and II in the HoA, and the resilience building programs in the Sahel have been duly applied in designing this project. In the same pattern, the knowledge that will be generated by this Project will be instrumental in designing and managing similar projects in the future. Being part of a regional program, Eritrea will benefit from the knowledge gained in the other participating countries. The knowledge sharing will be mobilized through regional networks and conferences on resilience building and livelihoods improvement in drought prone areas. Results from proposed baseline studies and other surveys, including the impact study will inform the stakeholders on how to put the acquired knowledge attributes into practical use for better results-oriented achievements and sustained benefit flows. IGAD is fully supported to have a coordination role in the drought resilience initiative.

Results Based Project Logical Framework

Programme:		Drought Resilience and Sustainable Livelihoods Program (DRSLP – Project IV) – Eritrea				
Purpose		The project goal is to contribute to improving the national goal of food and nutrition security, increment of employment rate and poverty eradication. And the specific objective is to enhance drought resilience and improve sustainable livelihoods of the smallscale farmers in Eritrea.				
Results chain		Performance indicators			Means of verification	Risks/mitigation measures and assumptions
		Indicators (including CSI)	Baseline	Target (2020)		
Impact	Resilience to drought enhanced	Population impacted by climate change, mainly drought	More than 1 Million	Reduced by about 5% by 2025	Project, IGAD, International Community reports	Assumption: Political stability will continue in the country
Outcomes	1. Increased water availability and its accessibility in the ASALs	1. Amount of rain water harvested for livestock, crops and human consumption.	1000 M ³	20,000 M ³		Risk: Low capacity of the pastoral community to adopt and adapt. Mitigation: Communities will be strengthened, mobilised, trained and sensitized. Women Participation in decision making supported
	2. Increased catchment, soil and water conservation and hence productivity.	2.1 Increased forage and crop production	500 ha	1500 ha-planted with food crop and Fodder by 2025		
	3 Enhanced animal productivity	i) Herd size, annual growth rate; ii) Annual offtake rate; iii) milk yield (l/year)	3. i) Cattle (1.5%); ii) Cattle (15%) iii) 150L /year/cow	2. i) Cattle (3%) ii) Cattle (20%) iii) 400 litre/ year/cow		
Outputs	Component 1. Natural Resources Management 1. Enhanced water infrastructures 1. Improved land Management/ Catchment treatment	1.1 Number of check dams and water storage structures developed. 1.2 Additional catchment area rehabilitated.	1.1.1. 15 new check dams and 15 water storage structures constructed 1.1.2. 120,000 people (over 50% of them Women) will benefit directly from the project 1.2.1. 1650 ha of land rehabilitated 1.2.2. 500 ha		•o	Risk: Low human and institutional capacity to implement the project. Mitigation: The Project will benefit from the existing DRSLP-II and regional and National capacity building activities for the RMC.

Component 2: Support to Livelihood Diversification 2.1. Provision of income diversification packages. 2.2. Prevention of milk post-harvest losses	2. 1. Number of Livelihood Packages Provided Procurement and distribution of equipment to reduce milk post-harvest losses.	2.1: 300 Cows, 7,500 Chicks 600 Beehives, 3000 fruit seedlings 1500 fuel wood seedlings; 1500 forage seedlings; 576 Kg improved vegetable seed varieties and 900 kg forage seeds; 300 Poultry waterers , 300 poultry feeders and 80 debeakers and distributed to 300 HH (30% of them women) 2.2: 225 stainless steel milk containers of 10 liters each and 400 stainless steel milk containers of 20 liters each for milk for 300 HH (30% women will receive the packages)																						
Component 3 capacity building 3.1. Training of Trainers and Farmers	3.1.1 No. of TOT and farmers trained.	3.1.1: 18 TOT to 150 trainees (30% women), and 600 farmers trained - 2 per HH (30% women headed HH)																						
Component 4: Project Management 4.1 PCU Supported and fully operational 4.2: Monitoring and Evaluation	4.1.1: Office equipment and supplies 4.2.1: M&E., Baseline studies	4.1.1 Various 4.2.1: 15 times in 3 years																						
Components Component 1: Natural Resource Management Component 2: Livelihood Diversification Support Component 3: Capacity Building Component 4: Project Management		Component 1: UA 2.604 million Component 2: UA 1.940 million Component 3: UA 0.232 million Component 4: UA 1.273 million Total UA 6.050 million	Inputs: <table><tr><th>Source</th><th colspan="3">Amounts in million UA</th></tr><tr><th></th><th>Total</th><th>Loan</th><th>Grant</th></tr><tr><td>TSF Pillar I</td><td>5.31</td><td>2.95</td><td>2.36</td></tr><tr><td>GoSE and Beneficiaries</td><td>0.74</td><td></td><td></td></tr><tr><td>Total</td><td>6.05</td><td>2.95</td><td>2.36</td></tr></table>		Source	Amounts in million UA				Total	Loan	Grant	TSF Pillar I	5.31	2.95	2.36	GoSE and Beneficiaries	0.74			Total	6.05	2.95	2.36
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TSF Pillar I	5.31	2.95	2.36																					
GoSE and Beneficiaries	0.74																							
Total	6.05	2.95	2.36																					

Project Timeframe

Year	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
Initial activities																				
Appraisal																				
Grant negotiations and approval																				
Signature of Grant agreement and fulfilment of first disbursement conditions																				
Publication of the General Procurement Notice																				
Project Launching																				
Procurement of goods works and services for the PCUs / PCUs																				
Signature of agreements with partner entities																				
Natural Resources Management																				
The conducting of studies by the Ministry of Agriculture																				
Studies TOR preparation																				
The construction of infrastructure by community based mode of procurement																				
Award of contracts for the procurement of goods																				
Sensitisation and training of beneficiaries and communities																				
Constitution of infrastructure/management committees																				
Livelihood Support																				
The conducting of studies by the Ministry of Agriculture																				
Studies TOR preparation																				
Award of contracts for the procurement of livelihoods inputs (Cattle, chicks etc.																				
Award of contracts for the procurement of other goods																				
Sensitisation and training of beneficiaries and communities																				
Constitution of infrastructure /management committees																				
The conducting of studies by the Ministry of Agriculture																				
Project Management And Capacity Building																				
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																				
Annual financial auditing																				
Impact Assessment																				
Mid-term review																				
Completion report																				

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON PROPOSED TSF PILLAR-I LOAN AND GRANT TO ERITREA FOR THE DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROJECT IV IN THE STATE OF ERITREA

Management submits the following Report and Recommendation on proposed loan for UA 2.95 million and grant for UA 2.36 million from the Transition Support Facility (TSF) -Pillar I resources to finance the Drought Resilience and Sustainable Livelihoods Project (Project IV) in the State of Eritrea.

I – STRATEGIC THRUST & RATIONALE

1.1 Project Linkages with Country Strategy and Objectives

1.1.1 The proposed Drought Resilience and Sustainable Livelihoods – Project IV (DRSLP-IV) is an expansion of the on-going Eritrea Component of the Multinational Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa – Project II (DRSLP- II). Eritrea Component is aligned with the Government of the State of Eritrea (GoSE) priorities as articulated in its National Indicative Development Plan 2014-18, whose strategic focus is human capital development; food security; and infrastructure development; the Bank’s Feed Africa Initiative under the High 5’s; and the Bank’s Ten Year Strategy (2013-2022).

1.1.2 The Eritrea 2014-2016 Interim-Country Strategy Paper (I-CSP) is articulated around only one pillar, namely, Enhancement of Skills Development and Technology, in Support of Inclusiveness and Transition to Green Growth. The actions planned under this pillar are designed to assist the country achieve inclusive growth and building resilience and capacity to deal with fundamental challenges to development. Issues of food security and building resilience will be mainstreamed, in particular through the Project II and IV (proposed) of the regional operation of Drought Resilience and Sustainable Livelihoods Program (DRSLP). To enhance inclusiveness and transition to green growth, support is needed to build resilience to extreme climatic shocks while enhancing diversification of income generating activities and promote pastoral and agro-pastoral productivity in a sustainable manner.

1.2 Rationale for Bank’s Involvement

1.2.1 Eritrea is a drought prone country. Rainfall in Eritrea is erratic with uneven distribution. The annual precipitation on the average is 500 mm. As a result agriculture is characterized by very low productivity, producing below subsistence level. In addition to this, lack of improved agricultural inputs and shortage of appropriate modern farm technology are the main constraint to food and nutrition insecurity. The principal means of livelihoods in Eritrea is agriculture and pastoralism characterised by regular movements in search of pasture and water for the human and livestock. Despite heavy dependence on agriculture and the high number of livestock, the country has not been able to exploit the economic potential to the benefit of its population and remains one of the poorest countries in Africa, plagued by extreme poverty with major threats of chronic hunger and starvation. The major limiting factor to livelihoods in Eritrea is the absence of perennial rivers, streams, low rainfalls and hence inadequate water supply. The low rainfall situation is made worse by losses due to run-off and the heavily degraded environment with minimum vegetation cover. The chances of drought occurring in parts of the country have increased from a probability of once in every

six to eight years to a probability of once in every two to three years based on the data available for the past 50 years. The limitations of the natural environment in Eritrea place certain constraints on improving livelihoods and food security.

1.2.2 High unemployment, poverty and environmental challenges are among the main bottlenecks for inclusive growth in Eritrea. This issue has a regional dimension in the IGAD region and Eritrea in particular. The project will look at it in the regional context and address it. The negative impact of El-Nino, recurrent droughts on people's livelihoods and gender imbalance has also challenged the inclusiveness agenda. Moreover, 80% of the Eritreans derive their livelihood from agriculture which is dependent on underground water. Consequently, a large proportion of the population is vulnerable and food insecure. Other challenges include governance issues and weak capacity to manage and build resilience in the rural communities. The project intervention will therefore seek to develop skills while promoting greater economic inclusion and resilience in the rural communities.

1.2.3 In order to better understand the challenges facing livestock communities in the Eritrea and the Greater Horn of Africa, the Bank had commissioned a *Regional Study on Sustainable Livestock Development in the Greater Horn of Africa* (GHA) from 2008 – 2010. The results of the study were validated at a workshop held in Djibouti in September 2011. The major challenges identified by the study included: (1) under-developed water resources in the region; (2) poorly developed and poorly managed marketing infrastructure and marketing systems that hamper production and productivity; (3) poorly managed and under-developed pasture, and degraded land and the environment; (4) poor and in some cases lack of policy, legal and institutional frameworks to manage agricultural production, particularly the livestock component; while some of the existing policies, legal and institutional structures are incoherent and quite uncoordinated; and (5) inter-community and regional conflicts that negatively affect livelihoods in the region.

1.2.4 To avoid the recurrence of severe water shortages and food crises in the HOA, there is need to address the root causes of vulnerability in the ASALs of this region. It is against this background that the Bank has launched an initiative to help address the key challenges to sustainable livestock production and livelihoods in the region, and help build the resilience and stability of the pastoral communities in the HOA. Based on the outcome of the *Regional Study on Sustainable Livestock Development in the GHA*, the Bank has developed and commenced implementation of a regional programme covering the GHA which would contribute to supporting interventions which would contribute to make communities in the HoA cope with drought better. This is the fourth project of the programme.

1.2.5 The Bank has significant experience in successfully implementing national, multinational and regional operations including DRSLP-II project in Eritrea. The Bank has also supported other drought related projects in the arid and semi-arid lands (ASAL) of Djibouti, Kenya, and Ethiopia in the past (e.g. the ASAL Based Livestock and Rural Livelihoods Support Project in Kenya). In addition the experience gained from the implementation start-up of DRSLP I, II and III has been mainstreamed in the design of this Project.

1.2.6 The Bank is committed under its strategy “Addressing Fragility and Building Resilience in Africa, 2014 – 2019” to effectively assist countries build resilience to move forward towards more stable political and economic development. Eritrea is situated in the Horn of Africa, one of Africa's most fragile and unstable regions characterized by many historical challenges including; a regional ‘security complex’ that draws member states into

constant intervention in each other's affairs; a number of decade long inter and intra national conflicts; low intensity inter community conflict, particularly along border regions, driven by competition for water, land and pasture; variable climatic conditions and proneness to drought creating food insecurity, and population displacement during famines. The Strategy emphasizes building resilience and reducing the main factors that underpin the country's high vulnerability to shocks, namely, food insecurity due to a nascent agricultural sector.

1.3 Development Partners Coordination

1.3.1 The Bank, along with UNDP, IFAD, FAO, GEF, EU, Japan and China is among the largest development partners in the Eritrea agriculture sector. The Bank, through the East Africa Regional Resource Centre (EARC), actively participates in this group. The Bank will continue to coordinate with these partners in supervising the implementation of this and other Bank-financed operations in Eritrea.

1.3.2 In terms of donor coordination, the GoSE currently prefers to deal with development partners bilaterally rather than as a group, adopting a more focused approach in their cooperation with development partners. In doing this, the Government seeks to ensure that there is minimal duplication of efforts and clear division of labour and a more balanced distribution of limited external resources to critical sectors of the economy.

Table 1.1: Development Partners Contribution to the Agriculture Sector in Eritrea

Table 1.1: Development Partners' Contribution to the Agriculture Sector in Eritrea				
	Sector or subsector	Size		
		GDP ¹ (%)	Exports (US\$)	Labor Force (%)
	Agriculture	21.0	2.06	80
	Industry	22.2		5
	Distribution Services	24.1		6
	Other Services	32.8		9
Players - Public Annual Expenditure (average 2005/6 to 2007/8)				
	Government	Development Partners		
UA m	126.27	34.40		
%	78.60	21.40		
Level of Donor Coordination				
Existence of Thematic Working Groups			Y	
Existence of SWAPs or Integrated Sector Approaches			Y	
ADB's Involvement in donors coordination*			M	

II – PROJECT DESCRIPTION

2.1 Project Components

2.1.1 The project goal is to contribute to improving the national goal of food and nutrition security, increment of employment rate and poverty eradication. Specific objective is to

1. The GDP figures are projections

2. This is the overall Budget operations of Eritrea as per the Ministry of Finance and IMF estimates. The allocations to agriculture sector will be provided once the authorities provide the figures

3. The major development partners in Eritrea include the AfDB, the European Union (EU), the UN System (UNDP, UNICEF, FAO, UNFPA, UNHCR, GEF, WHO, IFAD), Italy, China.

enhance drought resilience and improve sustainable livelihoods of the smallholder farmers in Eritrea. This project has been designed to complement the Eritrea component of DRSLP II, by providing additional activities that could not be accommodated through DRSLP II due to resources limitations. It will thus cover the same 6 Zobas covered by DRSLP II. The infrastructure developed under DRSLP II to link farmers to markets will thus serve this project too. The project will have four components: (i) Natural Resources Management; (ii) Value chain and support to livelihoods diversification; (iii) Capacity building and; (iv) Project management in line with the DRSLP-II which is already on-going. The various activities to be implemented under each component are as follows

Table 2.1: Project Components

No.	Component name	Est. cost in UA million	Component description
1.	Natural Resources Management	2.604	<ul style="list-style-type: none"> Construct/rehabilitate 15 micro dams to conserve water for livestock, human consumption and irrigation. Catchment Treatment for 1500 hectares irrigation infrastructure and land Levelling for vegetable production for 150 hectares planting of indigenous grass species on 150 hectares
2.	Support to Livelihood Diversification	1.940	<ul style="list-style-type: none"> Provision of income diversification packages that include dairy cattle, chicks, beehives, vegetable, fruits and forage seeds, irrigation plots, pesticides, veterinary drugs, vaccines and equipment to 300 households (HH) to diversify their livelihood. Promotion of prevention of milk post-harvest losses and improvement of productivity by provision of milk containers, debeakers feeders and waterers to the 300 HH
.3	Capacity Building	0.232	<ul style="list-style-type: none"> Training of trainers and farmers in livestock, horticulture and Natural Resource Management. Workshops, seminars, study tours and meetings
4.	Project Management	1.273	<ul style="list-style-type: none"> Baselines study and environmental mitigation DSA for Monitoring and Evaluation support, supervision, TA for design and survey (15 times in 3 years). Impact studies and assessments. Staff salaries, office space etc. (GoSE contribution) Office equipment and supplies Car rentals. Audit fees.
	Total	6.050	

2.2 Technical Solution Retained and Other Alternatives Explored

2.2.1 The technical solutions retained are based on a criteria that will ensure Project success and sustainability. Design will be done by the experts of the Ministry of Agriculture and monitored, evaluated and approved by the Technical Assistant. The project is designed to provide small infrastructures for both water and land management as well as for sustainable livelihoods that can be sustainably operated and managed by smallholder farmers for improved production and productivity, and income generation. This is to avoid the large structures that will otherwise be too big and too expensive to manage by the smallholder producers. The design will also ensure rapid completion of the structures. Beneficiaries will be trained and provided with tools and services to maintain the structures. Construction of

Civil works will be done through community based mode of procurement as being practiced in the on-going DRSLP - II. There will be no involvement of local contractors.

2.2.2 Two technical alternatives were considered and rejected for their weaknesses in generating the expected impact on a sustainable basis (Table 2.2)

Table 2.2: Project Alternatives Considered and Reasons for Rejection

Alternative solution	Brief description	Reasons for rejection
Scattering the project activities in several regions	Increased number of activities in small areas	<ul style="list-style-type: none"> Activities spread over wide areas are difficult to implement or monitor and have limited impact.
Increase livestock production through increasing inventories	Restocking Smallholder farming communities areas as a means of boosting production	<ul style="list-style-type: none"> Negative effects on the environment might result from increased livestock population. Vulnerabilities in rural livelihoods are being addressed through improved productivity and marketing as well as increased stock offtake rather than mere stock expansion.

2.3 Project Type

2.3.1 DRSLP IV - Project in (Eritrea) is part of a regional and multi-phased program in Eritrea and the Horn of Africa. It will be financed through a TSF Pillar-I grant resources.

2.4 Project Cost and Financing Arrangement

2.4.1 The total project cost is estimated at UA 6.05 million (exclusive of tax and customs duty), and including contingencies. The Bank's contribution amounts to UA 5.31 million (88% of the total cost) from TSF Pillar-1 resources in loan and grant. The Bank financing will be 70% in foreign exchange and 30% in local currency. The Government and Beneficiaries will contribute to the tune of UA 0.74 million (12%) both in kind and in cash. Summaries of the project costs by component and by category of expenditure are presented respectively in Tables 2.3 and 2.4 below, while details are provided in Annex C of Volume II of the Report.

Table 2.3: Summary of Project Cost by Component

Components	(US\$'000)			(UA'000)			% For. Exch.	% Base costs
	Local	Foreign	Total	Local	Foreign	Total		
1. Component 1 Natural Resources Management	1,391	2,086	3,476	993	1,490	2,483	60	42
2. Component 2: Support to Livelihood Diversification	518	2,072	2,590	370	1,480	1,850	80	37
3. Component 3 -Capacity Building	78	233	310	55	166	221	75	7
4. Component 4 : Project Management	1,546	153	1,699	1,104	109	1,214	9	14
Total baseline costs	3,532	4,543	8,075	2,523	3,245	5,768	61	100
Physical Contingencies	71	91	162	50	65	115	70	2
Price Contingencies	106	127	233	76	91	167	70	3
Total project costs	3,709	4,761	8,470	2,649	3,401	6,050	61	105

2.4.2 Project financing arrangements: The Bank resources will finance 100% of Goods; 100% of Works; 100% of services; 0.00% of personnel; and 100% of operating costs. All works and part of the services amounting to UA 2.95million or 49% of the total cost will be loan. While all goods and part of the services amounting to UA 2.36 million or 39% of the total cost will be financed with the grant component. The Government of the State of Eritrea and the project beneficiaries' contribution in local currency, will amount to UA 0.74 million or 12% both in kind and in cash will finance 100% in Personnel salaries, and the day-to-day operations and maintenance, by the beneficiaries, of the infrastructure that will be constructed by the project, once completed and handed over to the beneficiaries.

Table 2.4: Sources of Finance

Expenditures	ADF (TSF Pillar I)								Government			
	Loan				Grant							
	Amount (UA'000)			%					Amount (UA'000)			%
	Loc.	For.	Total		Loc.	For.	Total		Local	For.	Total	
Works	1,021	1,531	2,552	100								
Goods					380	1,521	1,901	100				
Services	99	299	398	100	60	179	239	100				
Operating Costs					66	154	220	100				
Personnel									740		740	100
Total costs	1,120	1,830	2,950	49	506	1,854	2,360	39	740		740	12

Table 2.5: Project Cost by Category of Expenditure

Category of expenditure	(US\$ '000)			(UA '000)		
	Local	Foreign	Total	Local	Foreign	Total
I. Investment Costs						
A. Works	1,391	2,086	3,476	993	1,490	2,483
B. Goods	518	2,072	2,590	370	1,480	1,850
C. Services	216	649	866	155	464	619
Total Investment Costs	2,125	4,807	6,932	1,518	3,434	4,952
II. Recurrent Costs						
A. Operating costs	90	210	300	64	150	214
B. Personnel	843	0	843	602	-	602
Total Recurrent Costs	933	210	1,143	666	150	816
Total Base Costs	3,058	5,017	8,075	2,184	3,584	5,768
Physical Contingencies	71	91	162	50	64	114
Price Contingencies	106	127	233	76	92	168
Total Project Cost	3,235	5,235	8,470	2,310	3,740	6,050

2.4.3 Expenditure will be carried out according to the schedule below during the implementation period for each component (see Table 2.6). The project will be for three years geared mainly towards construction of infrastructure, support to livelihoods, value addition and capacity building of the beneficiary smallholder farmers to improve their production and productivity.

Table 2.6: Expenditure Schedule by Component (UA million)

Components	Amount (UA'000)			
	Y1	Y2	Y3	Total
Component 1: Natural Resources Management	1 294	1 100	89	2 483
Component 2: Support to Livelihood Diversification	513	808	529	1 850
Component 3 : Capacity Building	100	100	21	221
Component 4 : Project Management	386	422	406	1 214
Total base costs	2 293	2 430	1 045	5 768
Physical Contingencies	48	47	20	115
Price Contingencies	70	68	29	167
Project total costs	2 411	2 545	1 094	6 050

2.5 Project's Target Area and Population

2.5.1 This project, like the DRSLP II, which it will be complimenting, will be community based and demand-driven. The project will intervene in the same six Zobas of the country (Zoba Anseba, Zoba Debub, Zoba Debubawi Keih Bahri, Zoba Gash Barka, Zoba Maekel, and Zoba Semeinawi Keih Bahri) under DRSLP II intervention. The villages adjacent to the project sites will be the direct beneficiaries of these activities with total beneficiaries of about 120,000 individuals out of which some 65,000 will be women. About 1,500 youth employment (men and women) will be created. The government is working to ensure that zobas with low socio-economic indicators are adequately supported. Other public institutions such as the National Agricultural Institute and relevant Directorates in the MoA will also benefit from the project interventions in terms of capacity building. These activities will be undertaken in 15 different sites

2.6 Participatory Process for Project Identification, Design and Implementation

2.6.1 The DRSLP was conceptualized, as a program, based on the findings of the Bank-commissioned "Regional Sustainable Livestock Development Study" in the HoA concluded in 2010, and the Mapping, Assessment and Management of Trans-boundary Water Resources carried out in IGAD Sub-Region in 2011 with IGAD and "Observatoire du Sahara et du Sahel". During those studies, high and grassroots-level consultations were carried out and validation workshops organized and attended by the main stakeholder. So far, 3 projects have been approved under the program and are ongoing - DRSLP I for a total of UA 83.11 million, covering Djibouti, Ethiopia, Kenya and IGAD (approved in December 2012); DRSLP II for UA 74.98 million (approved in November 2014) that cover Eritrea, Ethiopia, Somalia and Sudan; and DRSLP III for UA 21.50 million (approved in June 2015) that cover Djibouti and Sudan. Total resources approved to date are UA 179.59 million (USD 251.43 million).

2.6.2 The programme is funded through the Regional Operations (RO) window that requires the participating countries to allocate part of their PBA allocations to the programme in addition to its normal counterpart contribution. The program is expanded as resources become available and countries are ready. However, resources for Eritrea under DRSLP II (UA 10.00 million) were limited and could only cover a few activities, and therefore, when additional resources became available under the TSF, the Government of Eritrea requested that these resources be used to expand the activities of DRSLP in the country.

2.6.3 During both the preparation and appraisal of the DRSLP IV project, the project team met and discussed with various government and non-government stakeholders. The team also met with community leaders, government officials, representative NGO's, as well as multilateral and bilateral development partners. The consultation process involved one-on-one interviews with beneficiary opinion leaders and randomly selected individuals (from a cross-section of gender, age and socioeconomic status) among the targeted communities; as well as large community group meetings with question and answer sessions on critical design and implementation issues. The beneficiaries and stakeholders welcomed the project and were unanimous in support of the project and the efforts of the government, development partners and aid agencies in assisting communities cope better with persistent drought cycles. The benefiting communities in the target areas will be greatly involved during implementation of the project activities. This will promote ownership of project investments by the beneficiaries and foster their commitment to their operation and maintenance. Major lessons that have been incorporated in the project design are: (i) to promote an integrated watershed based, community led approach in terms of agricultural and other non-agricultural activities is a good way to develop drought resilience of communities; and (ii) to concentrate income earning activities to fewer households with adequate follow up and services provision to ensure visible impact rather than providing minimal support to many households with minimal follow up and minimum chances of success.

2.7 Bank Group Experience, Lessons Reflected in Project Design

2.7.1 The Bank's agriculture portfolio in Eritrea used to be significant and considerable experience has been gained from construction of infrastructure, community initiatives through group formation for managing natural resources, community and irrigation infrastructure. The design of this proposed project has benefited from lessons learnt through implementation of similar on-going Bank projects, in particular DRSLP 1, II and III in HoA, and experience gained elsewhere, in order for the design of this project to be sound and relevant.

2.7.2 The design of the proposed project has incorporated lessons and best practices from the projects already completed in Eritrea and DRSLP HoA in terms of soil and water conservation, water harvesting, irrigated crop production, livestock production and disease control, income generating activities, rangeland re-seeding, establishment of fodder banks at individual farm level and community level, infrastructure for market access and early warning system, for demonstration and upscaling purposes. Low human capacity was experienced in previous interventions. Capacity building in this component will address that weakness.

2.7.3 Lack of readily available designs causes delay in start-off and rapid implementation. Design has commenced for the infrastructure activities to be implemented under the proposed project with resources of the DRSLP II so that by the time the grant is approved by the Bank's Board of Directors, full designs and cost estimates for civil works are ready for construction. This will ensure timely delivery of expected results.

2.7.4 Another lesson learnt from the DRLSP I, II and III is that the promotion of an integrated watershed based, community led approach in terms of agricultural activities and other non-agricultural activities is a good way to develop drought resilience of communities. Secondly, the assessment of the available technical and human capacity of the project staff

should be given due importance during the design to assess the need for the technical assistance in the project implementation, if needed.

2.8 Key Performance Indicators

2.8.1 The project aims at enhancing drought resilience and sustainable livelihoods among smallscale farmers in the communities. The progress toward achieving this objective will be measured through i) the number of water and livestock, and crops 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) and livelihoods, vii) number of personnel and beneficiaries (males and females) benefiting from capacity building programs. Key indicators to measure the project impact will be % reduction in the level of the population affected by drought and land degradation (data stratified by gender). The different programmes reports and surveys at the regional and national levels will provide values on the retained indicators outcomes and results. In this context, M&E expert in the PCUs and other key partners will be responsible for the coordination of data collection, analysis and dissemination.

III – PROJECT FEASIBILITY

3.1 Economic and Financial Performance

3.1.1 The project through the construction of micro dams and catchment protection will enhance the collection and management of water resources. At the farm level, the project will directly reach out 300 households, providing them with stock, irrigation facilities and agricultural inputs. Furthermore, the development of pasture will increase feed availability for livestock beyond the 300 households. The supply of dairy cattle combined with the development of pasture will increase milk production. All this will translate into increased crop and livestock productivity and production, improved livestock parameters, and increased farmer incomes. Other benefits include capacity building of 300 farmers and Government staff, and strengthened food security.

Basic Assumptions

3.1.2 The economic and financial analysis is based on the “with” and “without” project scenario. It is carried out at 2 levels: nationwide to assess the project contribution to the national economy and, at the farm level to determine the improvement of the farm's revenue.

3.1.3 The benefits resulting from proposed investments in the project would be derived from the sale of agricultural produce (vegetables, fruits and forage), chicken and milk. It is estimated that the availability of water and the scaling-up of the use of improved agricultural technologies (improved seeds and modern farming system) would increase the productivity of the basic crops by 41% on the average. Milk production is expected to increase from 500 to 2100 liters per year.

3.1.4 For the purpose of financial analysis, market prices were used. As Eritrea is a net importer of cereals and milk products, all project outputs are assumed incremental as they expand the supply to meet the growing relevant demand. Import/export parity is used to assess their economic value.

3.1.5 The Economic Rate of Return (EIRR) of the project over a period of 25 years is estimated at 17 % and the associated Net Present Value (NPV) is US\$ 1,802,750. The Financial Internal Rate of Return (FIRR) is 15% with a NPV of US\$ 1,185 250.

Sensitivity Analysis

3.1.6 A sensitivity analysis was carried out to assess the sensitivity of the project to various factors and observed that both EIRR and FIRR are sensitive mainly to price and cost changes as shown below.

Table 3.1: Sensitivity analysis

Scenario	EIRR	FIRR
10% price increase	19 %	17 %
10% price decrease	15%	14 %
10% cost increase	14%	13 %
10% cost decrease	18%	16%

3.1.7 **Financial analysis at the household level:** The average size of the typical agro-pastoral farm is 0.5 ha cropped with sorghum, barley and millet. Each beneficiary farmer receives one dairy cow, 25 chicks, two beehives and accessories, 10 fruit tree seedlings, 5 fuel wood tree seedlings, 5 forage tree seedlings, 1.92 kg vegetable seeds, 3 kg forage seeds and training from the project. The household income is generated by the sale of agricultural production surplus, chicken and milk. 70 percent of crop production is used for household consumption, while about 15 percent is used for seed and the remaining 15 percent sold. Milk sale represents 20% of the total milk produced. The farmer's net incremental income per year is estimated at US\$ 880 under rain fed agriculture and US\$ 2800 under irrigation (vegetables) if the farmers adopt 2 production cycles per year. Additional income amounting US\$ 750 is generated from the milk sales.

3.2 Environmental and Social Impacts

Environment

3.2.1 The Project is classified as Category 2, as the site specific environmental and/or social impacts can be minimized by the application of mitigation measures. The Strategic Environmental and Social Assessment (SESA) for the Drought Resilience and Sustainable Livelihood is guiding the process of preparation and appraisal of DRSLP-IV in Eritrea. Positive environmental impacts resulting from the improvement of the soil and water conservation, and catchment management activities will result in ground water recharge, improvement of the performance of the irrigation and marketing infrastructures as well as enhanced methods of horticultural productivity. This is expected to result in: (i) improvement of the overall food and nutrition security and livelihoods of the small-scale farmers and the people living in the Zobas; (ii) creation of employment; (iii) improved animal and crop conditions and better resistance and reduction of mortality to drought conditions as a result of improved water supply, pasture rehabilitation, assured supply of animal feed, improved animal handling and health facilities; (iv) promotion of improved agricultural methods and efficient utilization of farm inputs on the irrigation schemes and natural resources. From an environmental standpoint, the improvement of the irrigation scheme will reduce water losses, hence increasing the value for water. As this project is an extension of the activities of the DRSLP II and covers the same regions, the ESIA published for DRSLP II in 2014 will apply for this project as well. Thus no specific ESIA was published for this project.

3.2.2 Potential negative impacts may include occupational health and safety risks associated with the construction works and temporary disturbance during the construction phase. The negative environmental impacts resulting from the construction works are expected to be minimal and site specific. Environmental impacts expected during the construction and operational phases and mitigation measures will be included in the TORs for the design of the specific works. In particular regular training courses will be provided on water management for both water supply and irrigation schemes so that there is no over-irrigation or water logging or over pumping of boreholes, on management of the rehabilitated pastures, on management of the marketing, and health facilities and feed storage facilities, on soil fertility programme, on environmental protection of the upper watershed catchments and riverine vegetation along the river banks, on stabilisation of the river banks, on promotion of Integrated Pest Management, on maintenance of environmental flow of the rivers and ensuring watering points for wildlife.

3.2.3 Farmers will be assisted with managerial solutions aimed at solving problems associated with land preparation and livestock production. Small farm equipment will be promoted as opposed to heavy farm equipment, to reduce any potential soil damage from the heavy soil equipment and provide better flexibility in land preparation. Mitigation measures will also include the proper control of water flow to prevent stagnation, thus contributing to a reduction in the incidence of water-related diseases. Technical support and training throughout the project is important and will include pest and disease prevention, safety of pesticide use, and prevention of environmental contamination by agrochemical residues. During the construction and implementation phases of the project the following activities will be implemented as mitigation measures: (i) Protection of the upland areas through afforestation program (ii) Re-seeding or allowing native grass and shrubs to grow along the perimeter; (iii) Removal of vegetation only when necessary; (iv) Restoration and rehabilitation of excavated sites using the removed topsoil; (v) Sensitization and public education on the use and handling of agro-chemicals; (vi) Appropriate disposals of hazardous wastes including empty chemical containers; (vii) Public education and sensitization of the public against the spread of HIV/AIDS and other infectious diseases; (viii) if found necessary, the designs to include site-specific environmental and social impact assessments; and (ix) The project will ensure that local folks are prioritized in the job offers especially women and youth.

Climate Change

3.2.4 The climate risks in the project area include erratic rain fall, with uneven distribution, causing severe droughts, intermittent floods, land degradation and food shortages, famine and hunger. The project will increase the technical resilience and enhanced coping mechanism of the farmers in relation to climate risks through rain water harvesting structures (water pans, sub-surface dams), improved underground water management, the introduction of storage for hay, rehabilitation of pastures through reseeded, introduction of drought-resistant seeds, the establishment and strengthening of group's organization to diversify their production and to adopt appropriate agriculture practices (e. g. crops are planted further apart so that moisture is available for each row), on handling of fertilizers and pesticides, public health, hygiene and sanitation and maintenance of the irrigation infrastructures. Climate risk management will include the protection of watershed and riverbanks through land-use planning which will increase the resilience of the receiving ecosystems, re-seeding of pastures, and establishment of conservation and afforestation activities that will ensure sustainability of the schemes.

Gender

3.2.5 Female Headed Households (FHHs) constitute 47% of households in Eritrea. Women have lower literacy/numeracy rates (52% to men's 64%)²; about 40% of girls leave school at an early age to get married. Inevitably, the low education levels among girls and women have negatively influenced income-earning capabilities and access to economic opportunities. In the post-conflict job climate, male workers are favoured for employment opportunities. Overall, 18% of married women and 93% of married men aged 15-49 were employed³. While all women participating in all kinds of work are paid, it is noted that in some situations, women aged 15-49 estimated at 29% are considered to be involved in unpaid work compared to 20% of men in the same age group (EPHS, 2010). Within the MoA, the Gender Mainstreaming Strategy ensures all projects involve women in planning, implementation and in accruing project benefits. The NUEW works closely with the MoA to represent the interests of Eritrean women and secure equal rights. They are effective in mobilizing and organizing women in rural communities and able to execute activities to promote women economic empowerment.

3.2.6 Based on the above indicators, gender will be mainstreamed across the activities and in conformity with the Gender Mainstreaming policy by the Ministry of Agriculture. The Gender Officer (in PMU) will liaise with relevant personnel to produce much needed gender disaggregated data relevant to all activities of the project and to upgrade the gender awareness of staff. The National Union of Eritrean Women (NUEW), due to their mandate, reach and expertise, will work with the MoA to implement activities aimed at women.

3.2.7 One of the objectives of DRSLP Project IV is to ensure gender is mainstreamed across project components, and considered in the planning, implementation and evaluation to improve women's participation in decision making, access to resources and opportunities. This is in line with the Bank Group's Gender Strategy (2014-2018) which focuses on women's economic empowerment, their legal status and the generation, and management, of knowledge

Social Impact

3.2.8 The project will contribute greatly to poverty reduction and improve livelihoods of the pastoralists/farmers mainly as a result of enhanced income obtained from the increase in production and sale of crops and livestock and livestock produce, and also from alternative sources of incomes to be supported by the project. Improved production, irrigation, water infrastructure, and post handling facilities will improve the quality at which crop and livestock produce enter the marketing chain thus improving economic returns to pastoralists and agro-pastoralists. The participatory approach adopted in the project will enhance the capacity of beneficiaries, especially women, to take advantage of proven technologies to increase profitability of crop and livestock production. The major benefits will accrue from the project's contribution to development of sustainable livestock and horticultural practices that will improve food security, nutrition, and sustainable environmental management practices. The poor segments of the target population who often have limited access to resources will benefit by having access to pastoralists/farmers' organisations and training opportunities. Women's increased participation and access to better training and marketing opportunities will allow them to increase their incomes thus providing better nutrition, education and health for the household.

² National Statistics Office, State of Eritrea (2010) Eritrea Population and Health Survey.

³ National Statistics Office, State of Eritrea (2010) Eritrea Population and Health Survey.

Involuntary resettlement

3.2.9 There will be no involuntary resettlement under this project.

IV – IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 The overall authority and responsibility over the project will rest with the Minister of Agriculture (MOA), working in close collaboration with other relevant Ministries. The project shall be directly under the responsibility of the Director General (DG) of the Agricultural Extension Department (AED) within the MoA, while the day to day management of the project activities will be carried out by the existing PMU established at the National and regional levels (at the Zoba -ZPMUs) under DRSLP-II, composed of qualified Government appointees (Project coordinator, Livestock specialist, Agronomist, soil and water conservation specialist, Forestry/Environment specialist, Agricultural extension specialist, Gender/Social expert and Accountant and Cashier). TA and supervision support for all the infrastructure and capacity building activities will be provided under the project to ensure successful implementation. The Project Steering Committee (PSC) established under DRSLP-II will also provide policy and implementation oversight, including the review and approval of the project annual work plans and budgets. The PSC will be chaired by the Minister of Agriculture -MOA or his representative. The PMUs will report to the DG of the Agricultural Extension Department (AED). The Financial Controller (FC) and the Project Finance Officer (PFO) who are part of the PMU of DRLSP II will undertake FM responsibilities under DRLSP IV as well as assist the accountants within the PMUs at the Zoba levels.

4.1.2 Some measures have been put in place to ensure fast implementation of the project. These include: (i) project implementation team which is already in place as the project will be implemented by the same team implementing DRSLP II; (ii) infrastructure designed under preparation with resources financing DRSLP II; (iii) loan and grant negotiations and project processing on its final stage to ensure the report is distributed to the Board before 15 December 2016; and (iv) the procurement plan developed.

4.2 Procurement Arrangements

4.2.1 “Procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the *“Procurement Policy and Methodology for Bank Group Funded Operations”*, October 2015 (as may be amended from time to time), and following the provisions stated in the Financing Agreement. Specifically, Procurement would be carried out following the Bank Procurement Methods and Procedures (BPP), i.e., Bank standard Procurement Methods & Procedures (PMPs), using the relevant Bank Standard or Model Solicitation Documents SDs, for all contracts.

4.2.2 **Procurement Risks and Capacity Development:** The assessment of procurement risks at the Country, Sector, and Project levels and of procurement capacity at the Executing Agency (EA), were undertaken for the project and the output have informed the decisions on the procurement regimes (BPS or Bank) being used for specific transactions or groups of similar transactions under the project..

Table 4.1: Summary of Procurement Arrangements

Project Categories		UA '000								
		Borrower PMPs		Bank PMPs					Total	
		CQS	LCB	OCB	LCB	Communi-ty – Based Approach	QCBS	CQS		LCS
1. Civil Works										
1.1	Construction of 15 check dams					[2,202.80]				[2,202.80]
1.2	Catchment Protections					[275.35]				[275.35]
1.3	Precision levelling/ land development					[49.56]				[49.56]
1.4	Indigenous grass seed disbursement					[24.78]				[24.78]
2. Goods										
2.1	Procurement of dairy cattle			[770.98]						[770.98]
2.2	Procurement of pesticides			[374.48]						[374.48]
2.3	Procurement of Veterinary drugs and vaccines			[361.26]						[361.26]
2.4	Procurement of chicks			[82.60]						[82.60]
2.5	Procurement of beehives with accessories			[147.15]						[147.15]
2.6	Procurement of vegetable seeds			[59.21]						[59.21]
2.7	Procurement of forage tree seedling			[0.22]						[0.22]
2.8	Procurement of fruit tree seedlings			[22.03]						[22.03]
2.9	Procurement of fuel wood tree seedlings			[0.22]						[0.22]
2.10	Procurement of forage seeds			[21.81]						[21.81]
2.11	Procurement of 20 litre Aluminium Milk containers			[17.62]						[17.62]
2.12	Procurement of 10litre stainless steel containers			[6.61]						[6.61]
2.13	Procurement of portable electrical de-beaker			[29.37]						[29.37]
2.14	Procurement of poultry waterer			[3.97]						[3.97]
2.15	Procurement of poultry feeder			[3.97]						[3.97]
2.16	Procurement of computer accessories		[18.36]							[18.36]
2.17	Procurement of Office consumables and stationeries		[18.36]							[18.36]
3. Non Consulting Services										
3.1	Car Rentals		[183.57]							[183.57]
4. Consulting Services										
4.1	Technical assistance for supervision						[66.08]			[66.08]
4.2	Impact Studies and Assessments						[91.78]			[91.78]
4.3	Completion Report							[22.03]		[22.03]
4.4	Audit Fees								[33.04]	[33.04]
5. Operating Expenses										
5.1	Training of trainers in livestock, horticulture and NRM	[44.06]								[44.06]
5.2	Training of farmers in livestock, horticulture and NRM	[183.57]								[183.57]
5.3	Baseline Study and Environmental Mitigation	[14.69]								[14.69]
5.4	Workshops, Seminars, study tours and meetings		[114.42]							[114.42]
5.5	DSA - M & E support and TA for design and Survey	[66.08]								[66.08]
TOTAL		[308.39]	[334.70]	[1,901.48]		[2,552.49]	[157.87]	[22.03]	[33.04]	[5,310.00]

4.2.3 The Ministry of Agriculture will be responsible for the procurement of goods, works, and acquisition of services. The staff of the Ministry of Agriculture which is the Executing Agency will be able to discharge the procurement function in compliance with the applicable rules and procedures. The Procurement unit is staffed by ten (10) procurement officers.

4.2.4 The procurement arrangements for the various components and items, under the different expenditure categories to be financed under the project and procured using the relevant procurement systems as well as the packaging, the different procurement methods and procedures, estimated costs and the timeframe as agreed between the Borrower and the Bank, are documented in the procurement plan. All activities under component I will be carried out through community based mode of procurement. The text of a General Procurement Notice (GPN) has been agreed with Ministry of Agriculture and it will be published in UNDB online and in the Bank's Internet Website, upon approval of the Financing Proposal. The procurement summary is in Table 4.1 above.

4.3 Financial Management

4.3.1 The Financial Management (FM) arrangements under the on-going DRLSP-II will apply to the Project. The Financial Controller (FC) and the Project Finance Officer (PFO) who are part of the PMU of DRLSP II will undertake FM responsibilities under DRLSP IV as well and will be assisted by the accountants within the PMUs at the Zoba levels.

4.3.2 The PMU shall maintain separate records and ledger accounts in respect of the project transactions using the newly installed Roshi Accounting Software, an Integrated Donor Reporting System procured under DRLSP-II. The project shall comply with the existing internal control rules and regulations prescribed in the Finance Disbursement and Finance Code Manual of the GOSE as well as the Bank Rules and Guidelines. The AED's internal auditors shall conduct regular audits of the processes and will include the project in its audit program.

4.3.3 The existing financial reporting and auditing arrangements under the DRLSP-II shall apply to the project. The MOA shall prepare interim financial reports (IFR) as part of the Quarterly Progress Reports (QPR) as required by the Bank, not later than 45 days after the end of each quarter. The format and content of the IFR shall be agreed upon during negotiations. The annual project financial statements shall be prepared in accordance with the cash basis of accounting annually, with the year end of 31 December. The project financial statements shall be audited by a private audit firm competitively recruited, based on the Bank's standard audit terms of reference (TORs) and the audited Financial Statements shall be submitted to the Bank no later than 6 months after period end. Bank supervision missions will provide additional FM implementation support. In addition, quarterly unaudited interim financial statements will be required to be submitted to the Bank 30 days following the end of each quarter.

4.3.4 **Disbursement:** The Project shall use the Direct Payment method and the Special Account Method for disbursements. However, the other two disbursement methods, namely the Reimbursement and Reimbursement Guarantee methods can be used where the need arises after consultation with Bank and obtaining prior approval. In the case of special account method, one (1) USD denominated Special Account and one (1) local currency (Nakfa) denominated account for each of the financing instruments (Grant and Loan) will be opened at the Bank of Eritrea (BoE) by MOA to receive funds. The opening of accounts will be an action prior to the first disbursement. The Bank will issue a disbursement letter, which will provide specific guidelines on key disbursement procedures and practices. Disbursement will follow the requirements of the Bank's Disbursement Handbook, and the Bank will provide continued guidance to government officials in enhancing their understanding of the disbursement methods through trainings workshops, supervisions and fiduciary clinics.

4.4 **Monitoring**

4.4.1 The monitoring and evaluation system will include, at the community level, a Participatory Monitoring and Evaluation system which will be used to generate and manage/consolidate gender-disaggregated data. A baseline study will be carried out in PYI to determine the current status of the project beneficiaries. A gender sensitive baseline study will be part of the study which would be followed up with annual gender sensitive surveys to assess implementation progress and overall project performance. An impact assessment of project activities will be conducted at the end of project implementation. The M&E of the project will be carried out by the PMU M&E specialist under the coordination of a consultant expert, and will be responsible for compiling the gender sensitive quarterly and annual progress reports. The specialist will also undertake periodic project evaluations as required in order to appropriately guide project management and implementation. In summary, the M&E specialist will be responsible for coordination of all monitoring and evaluation activities and ensure the production and publication of the necessary reports. In this connection, adequate budgetary provisions will be availed to assist in this important role. The Consultant will also assist in the harmonization of a gender-sensitive M&E mechanism 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 level. The National institutions in charge of statistics and/or specialized monitoring and evaluation, will be mobilised under the coordination of the Project Coordinator and the Steering Committee, to establish the baseline situation and assess the regional program outcomes and impacts

4.4.2 The Bank will conduct regular follow-ups, review and supervision missions to closely monitor project implementation. The latter would be undertaken at least twice a year. In addition to the Bank's supervision missions, a mid-term review would be undertaken at mid-term of the project. The report of this evaluation would assess the progress of the project and identify major problems and constraints, and solutions. Recommendations would be made with respect to modifications to project design or maintenance of the original focus. The Bank through its East Africa Resource Center (EARC) will closely monitor the project implementation together with the PMU and GoSE Officials.

Table 4.2: Project Implementation Milestones

Time Frame	Milestone	Monitoring Process and Feed Back
Year 1	Baseline data collection,	M&E officer, Project Specialists and Data collectors/analysts
Year 1-3	Project Implementation	M&E Officer, Project Team, Service Providers and beneficiaries.
Year 1-3	Impact of Project Activities	M&E officer, Project Team, Project Steering Committee, and beneficiaries. Annual process along project implementation with progress report
Year 1-2	Mid-Term-Review	Beneficiaries, Bank, Government and Project Team.
Year 1-3	Audit Reports	Project Team and Auditors, annually
Year 3	Project Impact Assessment and Completion Report	Beneficiaries, Bank, Government and Project Team

4.5 Governance

4.5.1 Eritrea remains under a one party political system led by the People's Front for Democracy and Justice (PFDJ). While there have been no national elections, elections of local leaders have taken place at all sub-zones levels in the country. The government is administratively and fiscally divided into six regions (Zobas) headed by Governors. GoSE maintains an economy dominated by the public sector, with the government overseeing most of the economic activities given the presence of weak private sector. However, the Government is working on a series of broad reforms, especially in regulatory processes that would ease restrictions on doing business in the country. The Government has also been courting diaspora and other foreign investors to invest in the services sector and manufacturing enterprises as remittances remain a vital source of financial capital inflows for Eritrea's longer-term economic development. However, the Government will need to institute accommodative fiscal policies on remittances in order to maximize the mobilization and efficient allocation of these transfers to promote greater inclusive economic growth and development.

4.5.2 Eritrea has historically suffered less from corruption compared to its peers in Africa. Nevertheless, key findings of the 2015 Country Policy and Institutional Assessment (CPIA) and other rankings revealed that Eritrea has experienced a slight improvement in overall governance. Most improvements have been seen in human development and sustainable economic opportunity and to a lesser extent, participation and human rights. Still, the safety and rule of law remain a major concern, having seen an average deterioration.

4.5.3 As Eritrea is a young country with undeveloped private sector, most of the contractors and businesses in Eritrea are mostly government owned entities. The contracts are released for tender and multiple bidders respond (although they are all Government owned), to ensure competition. To ensure that there are adequate financial controls: (i) the Bank undertakes its own cost estimates of implementing the various activities against which any contract would be benchmarked; (ii) external consultants will be recruited to supervise civil works; and (iii) a full time Accountant will be attached to the project to maintain proper project accounts.

4.6 Sustainability

4.6.1 The sustainability of the project will be due to a combination of factors, most importantly the participatory demand-driven approach adopted in the design of the project, this has also been factored in the implementation in order to promote a sense of ownership among the beneficiaries. Through the Strengthening of pastoral/farmers organisations (through training and sensitization), pastoralist/farmers will gain management skills and enhanced bargaining power. The project will focus on capacity building, including training the beneficiaries on efficient use and management of scarce water and feed resources. Suitable service providers, with experience in capacity building and training for transformation will be identified and contracted to institute the process of participation and empowerment among stakeholders during implementation. Secondly, beneficiaries will assume ownership and responsibility of the project infrastructure after construction, and will thus bear the responsibility for their operation and maintenance, will further sustain flow of project benefits during and beyond the project lifetime. The institutionalisation of a beneficiary contribution of efforts, the use of best service providers including reputable NGOs will minimise failure and sustain flow of outputs. A key issue to the project's sustainability will be the flow of additional incomes to the resource poor communities of the fragile ASALs. The project has been designed in such a way that the commitments of the

beneficiaries are obtained from the outset (at project formulation), thus fostering a sense of ownership.

4.7 Risk Management

4.7.1 The Project Result Based Logical framework (RBLF) has identified certain risks and proposed some mitigation measures summarized in Table 4.3.

Table 4.3: Identified Risks and Mitigation Measures

Risk	Risk Rating	Mitigation	Risk Rating with mitigation
Strategic level			
Political stability	Moderate	Dialogue between the various political parties continues and peace is highly likely to be sustained	Moderate
Operational level			
Low capacity of the pastoral community to adopt and adapt.	Moderate	Communities will be strengthened, mobilised, trained and sensitized. Women Participation in decision making supported	Low
Low human and institutional capacity to implement the project.	Moderate	The Project will benefit from the existing DRSLP-II and regional and National capacity building activities for the RMC.	Low

4.8 Knowledge Building

4.8.1 The project is expected to generate considerable knowledge attributes that will add value to the overall design and management of similar projects in future. Knowledge will be derived from the adopted project design which is informed by lessons from previous and on-going projects. In addition, through this project and others implemented, institutional memory and knowledge acquired through the establishment of core groups and networks of skilled teams capable of implementing other similar interventions to build communities' drought resilience and improve livelihoods will be instituted. Thus, collaboration with other similar Bank and non-Bank interventions will be promoted. To facilitate follow-up on emerging knowledge attributes, the project by design has included the additional baseline studies, as well as an impact study that will provide the Government and beneficiaries pertinent knowledge issues that can be put into practical use for better result-oriented achievements. Moreover, the systematic monitoring and evaluation modalities will inform project management, beneficiaries, the Government and other stakeholders on the status of project implementation and address constraints in a consistent and timely manner. Lessons learnt from the feedback process could then guide effective decision-making during implementation and also designing future projects.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal Instruments

5.1.1 The program will be financed by a Loan of UA 2,950,000 and a Grant of UA 2,360,000 from the Transition Support Facility (TSF) - Pillar I.

5.2 Conditions associated with Bank's intervention

Condition Precedent to Entry into Force of the Loan and Grant Agreements.

5.2.1. The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan and Guarantee Agreements of the African Development Fund. The Grant Agreement shall enter into force on the date of signature by the Recipient and the TSF.

Conditions Precedent to First Disbursement of the Loan/Grant:

5.2.2. The obligation of the TSF to make the first disbursement of the Loan/Grant shall be conditional upon the entry into force of the Loan and Grant Agreements and the submission by the Borrower/Recipient of evidence, in form and substance satisfactory to the Fund, confirming the fulfilment of the following condition:

- (i) The opening of a USD denominated Special Account and a local currency (Nakfa) denominated account, at the Bank of Eritrea, into which the proceeds of the Loan/Grant will be deposited.

5.2.3. Other Conditions. The Borrower/Recipient shall provide evidence, in form and substance satisfactory to the Fund, of the fulfilment of the following condition:

- (i) Carrying out environmental and social impacts assessment of the Program and putting in place appropriate mitigation measures.

5.2.4. Undertakings. The Borrower/Recipient undertakes, in form and substance satisfactory to the Fund, to:

- (i) Implement the measures necessary to mitigate the environmental and social impacts of the Program and report on the progress of implementation on a quarterly basis.

5.3. Compliance with Bank Policies

This project complies with all applicable Bank policies.

VI – RECOMMENDATION

Management recommends that the Boards of Directors approve the proposed loan of UA 2.95 million and grant of UA 2.36 million from the resources of the Transition Support Facility Pillar I, to the Government of the State of Eritrea, for the purposes and subject to the conditions stipulated in this report.

Appendix I. Country's Comparative Socio-Economic Indicators

Indicators	Unit	2007	2008	2009	2010	2011	2012	2013 ^(e)
National Accounts								
GNI at Current Prices	Million US \$	709	1,238	1,501	1,780	2,314	2,759	...
GNI per Capita	US\$	180	230	270	310	390	450	...
GDP at Current Prices	Million US \$	706	1,380	1,857	2,117	2,608	3,092	3,438
GDP at 2000 Constant prices	Million US \$	706	726	755	771	838	897	907
Real GDP Growth Rate	%	-3.6	-9.8	3.9	2.2	8.7	7.0	1.1
Real per Capita GDP Growth Rate	%	-7.1	-12.6	0.6	-1.0	5.2	3.6	-2.0
Gross Domestic Investment	% GDP	22.0	...	...	...	...	...	...
Public Investment	% GDP	16.9	...	...	...	...	...	...
Private Investment	% GDP	5.1	...	...	...	...	...	...
Gross National Savings	% GDP	21.4	7.2	1.7	3.7	10.8	12.1	8.6
Prices and Money								
Inflation (CPI)	%	19.9	19.9	33.0	12.7	13.3	12.3	12.3
Exchange Rate (Annual Average)	local currency/US\$	9.6	15.4	15.4	15.4	15.4	15.4	15.4
Monetary Growth (M2)	%	86.5	14.4	16.7	16.1	15.1	...	...
Money and Quasi Money as % of GDP	%	224.5	210.3	182.5	185.9	173.7	...	...
Government Finance								
Total Revenue and Grants	% GDP	45.9	...	...	...	...	...	...
Total Expenditure and Net Lending	% GDP	85.5	...	...	...	...	...	...
Overall Deficit (-) / Surplus (+)	% GDP	-39.6	-21.1	-14.7	-16.0	-16.2	-13.5	-12.5
External Sector								
Exports Volume Growth (Goods)	%	3.2	31.3	26.1	26.1	20.8	21.0	21.0
Imports Volume Growth (Goods)	%	-27.8	-19.9	-9.7	21.1	10.8	19.2	13.1
Terms of Trade Growth	%	0.5	-38.0	-19.6	2.9	754.4	53.4	-14.4
Current Account Balance	Million US \$	-4	-84	-102	-119	14	72	9
Current Account Balance	% GDP	-0.6	-6.1	-5.5	-5.6	0.6	2.3	0.3
External Reserves	months of imports	0.8	1.9	2.5	2.8	2.3	...	...
Debt and Financial Flows								
Debt Service	% exports	9.3	45.0	35.9	33.5	13.1	8.3	8.4
External Debt	% GDP	46.6	61.9	49.1	45.8	35.8	29.1	25.7
Net Total Financial Flows	Million US \$	185	138	148	160	159	...	...
Net Official Development Assistance	Million US \$	177	143	144	161	163	...	...
Net Foreign Direct Investment	Million US \$	28	39	91	91	39	74	...

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.

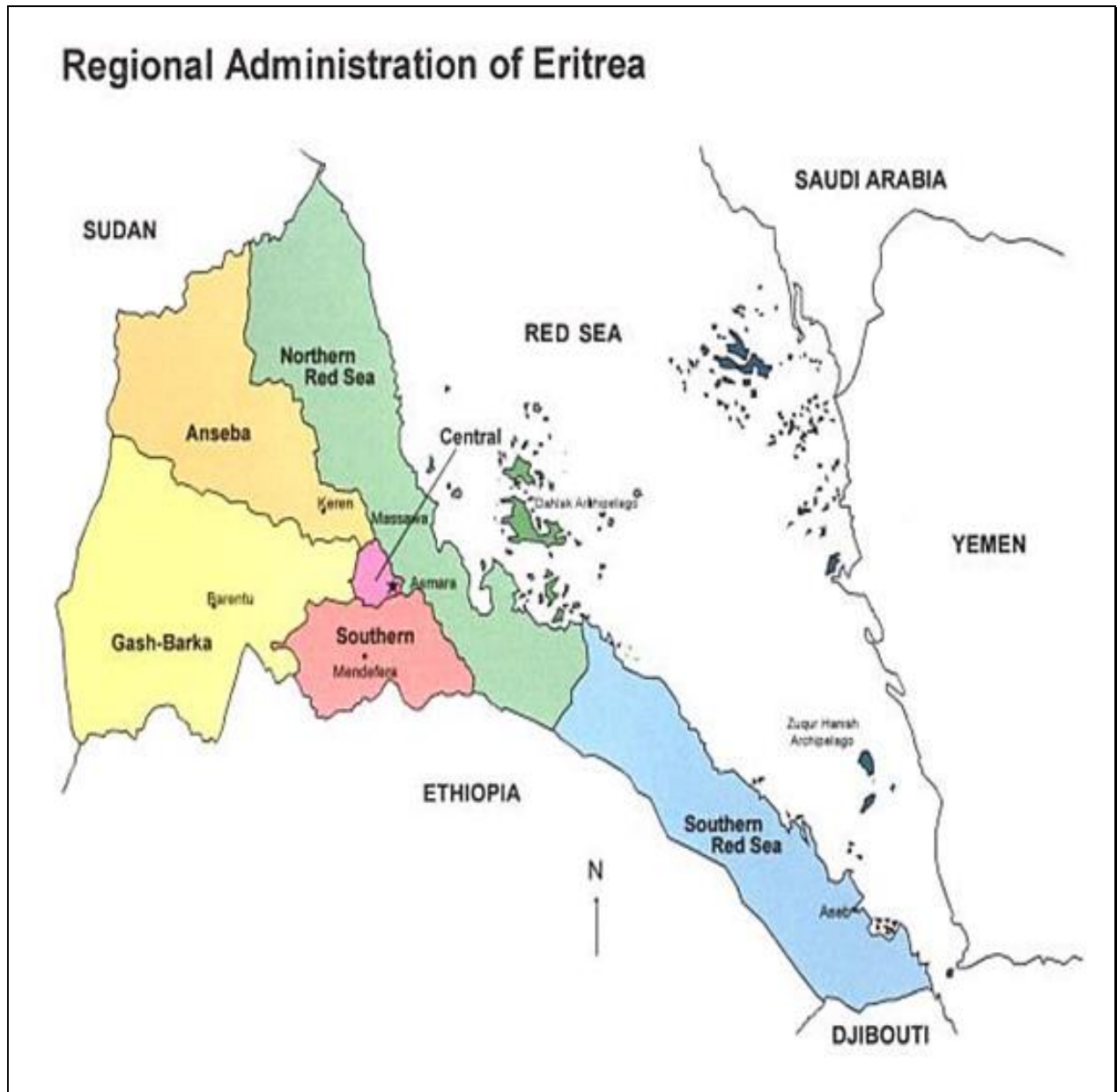
Notes: ... Data Not Available

(e) Estimations ----Last update April 2014

Appendix II. AfDB's Active Portfolio in the Eritrea (14 November 2016)

PROJECT NAME	SOURCE OF FINANCE	APPROV. DATE	DISBURS. DEADLINE	NET LOAN	DISBURS. AMOUNT	DISBURS RATE	AGE IN YRS	PERF. ASSESSMENT
Eritrea-DRSLP II	ADF-Loan	26-Nov-14	31-Dec-20	5,750,000.00	148,418.84	2.58	2	NON PP / NON PPP
Eritrea-DRSLP II	ADF - Grant	26-Nov-14	31-Dec-20	5,750,000.00	360,227.61	6.26		
Skills Development for Employability and Entrepreneurship	ADF-Loan	3-Mar-15	30-Jun-20	7,580,000.00	2,208.87	0.03	1.7	NON PP / NON PPP
Skills Development for Employability and Entrepreneurship	ADF - Grant	3-Mar-15	30-Jun-20	5,920,000.00	794,549.27	13.42		
Support to Technical and Vocational Education and Training.	ADF - Grant	30-Nov-11	31-Dec-16	12,020,000.00	9368851.57	77.94	5	NON PP / NON PPP
Public Financial Management and Statistics Technical Assistance Capacity Building	ADF- Grant TSF Pillar III	04-Jul-16	30-Jun-20	4,500,000.00	0	0	0.4	N/A
TOTAL				41,520,000.00				

Appendix III: Map of the Project Area



Disclaimer: This map is provided by the Government of State of Eritrea during the Eritrea I-CSP preparation in April 2014 for illustration purposes and use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the African Development Bank any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.