



The World Bank

De-risking, inclusion and value enhancement of pastoral economies in the Horn of Africa (P176517)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Mar-2022 | Report No: PIDA32933

**BASIC INFORMATION****A. Basic Project Data**

Country Eastern Africa	Project ID P176517	Project Name De-risking, inclusion and value enhancement of pastoral economies in the Horn of Africa	Parent Project ID (if any)
Region AFRICA EAST	Estimated Appraisal Date 17-Feb-2022	Estimated Board Date 09-Jun-2022	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance of Ethiopia, National Treasury and Planning, Kenya, Ministry of Finance of Somalia, Ministere des Finances Djibouti	Implementing Agency Ministry of Trade and Regional Integration of Ethiopia, Ministry of Agriculture of Djibouti, Ministry of Finance of Somalia, State Department of Livestock of Kenya, Ministry of Agriculture of Ethiopia, Kenya Development Corporation, PTA Reinsurance Company (ZEP-RE)	

Proposed Development Objective(s)

The project development objectives are to enhance pastoralists' access to financial services for drought risk mitigation, include them in the value chains, and facilitate the livestock trade in the Horn of Africa

Components

Package of financial services for climate resilience
Livestock Value Chains and Trade Facilitation

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	432.50
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Total Financing	432.50
of which IBRD/IDA	327.50
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	327.50
IDA Credit	257.50
IDA Grant	70.00

Non-World Bank Group Financing

Trust Funds	33.00
Disaster Risk Financing and Insurance	28.00
Horn of Africa Initiative Umbrella Trust Fund	5.00
Commercial Financing	72.00
Unguaranteed Commercial Financing	72.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- The Horn of Africa (HoA) is amongst the poorest and most fragile regions in the world.** The HoA includes the eight countries that are members of the Intergovernmental Authority on Development. Most countries in the HoA are poor and extreme poverty is significant in the border regions. One third of the population lives below 1.9 dollar a day.¹ Several countries have come together to strengthen regional cooperation and address global challenges within the “Horn of Africa Initiative”. These are Djibouti, Eritrea, Ethiopia, Kenya, Somalia and Sudan with a total area of around 2.5 million square kilometers, a population of 230 million and a combined gross domestic product (GDP) of around US\$243 billion. The Initiative is currently supported by the African Development Bank (AfDB), the European Union (EU) and the World Bank Group (WBG). Over 70

¹ Horn of Africa Regional Economic Memorandum (HoA REM), 2021.



percent of the population lives in rural areas, where poverty is concentrated. As per available estimates, the population of the five countries is expected to grow to around 250 million by 2030. The sub-region has shared social and ethnic kinship, historical trade, and cultural affiliations with the rest of the world and has some of the oldest and complex civilizations. The proposed project will cover Djibouti, Ethiopia, Kenya, and Somalia.

2. The HoA has vast rangelands, with a large pastoral and agro-pastoral population. In the eight HoA countries, one fifth of the total population is made up of pastoralists or agro-pastoralists, i.e., around 50 million people (Table 1). Their main source of livelihood is the rearing of livestock, mostly in open grazing rangelands in the semi-arid areas. These rangelands cover most of the land mass in the region. Pastoralists are among the poorest population groups in the HoA countries. For example, in Kenya, pastoralist communities score far lower than the country average across the board for all development indicators. In Somalia, the nomadic regions where most pastoralists reside has a staggering 99 percent of people classified as cash income poor. In Ethiopia, the poverty headcount ratio in pastoral areas was 27 percent in 2016 (versus 24 percent nationally).

3. The region is exposed to disasters, amplified by climate change, and recurrent severe droughts are a key factor to poverty and conflicts in pastoral economies. From 2008 until 2011, a series of large-scale droughts hit the HoA countries. The 2011 drought was particularly severe and led to major humanitarian interventions in Djibouti, Ethiopia, Kenya, Somalia and the Karamoja region of Uganda – over 10 million people required urgent food assistance (OCHA 2011). By July 2017, close to 20 million people were facing acute food insecurity (USAID, 2017). Early financial response to drought in Ethiopia, Kenya and Somalia would have saved \$1.6 billion in humanitarian response and nearly \$2.5 billion in avoided losses over a period of 15 years (USAID, 2018).

4. Pastoralists have generally coped with drought through mobility and increasing herd size, which has contributed to rangeland degradation in some areas. About 29 percent of the total land area in Ethiopia and 40 percent in Kenya is classified as degraded. However, such degradation is caused by growing population numbers, land use for economic development, and climatic impacts. It is particularly severe in northern, central, and northeastern regions of Ethiopia, with denser population causing increased pressure on natural resources; and in the central and western areas of Kenya due to more intense agricultural production.²

Sectoral and Institutional Context

5. The economies of countries in the HoA are highly dependent on pastoralism and livestock production as a source of livelihoods, income, and contribution to GDP. In most countries, livestock contributes considerably more than one third of agricultural GDP (in Djibouti and Somalia more than 80 percent; average 53 percent for all countries), and pastoralists are the main source of meat and milk products. Ethiopia has the largest national livestock herd in Africa with an estimated 128.6 million head of animals in 2018, followed by Sudan (108.8 million animals). Somalia has the largest camel population in the world. Kenya and Uganda also have large livestock herds. The impacts of the COVID-19 pandemic have been severe and compounded by other shocks.

6. The regional livestock trade is significant but mainly unrecorded and focused on live animals. The livestock value chains are dominated by traders, with limited benefits going to the pastoral producers. Beyond issues of being in remote places and having many intermediaries between them and the final buyers

² Drought Index-insurance for Resilience in the Sahel and Horn of Africa -DIRISHA- study 2021.



of livestock, other reasons explain the limited value derived by producers selling live animals, including: (i) lack of quality infrastructure to trace livestock and ensure standards; (ii) limited resources for disease control; (iii) transport systems (trucking or trekking) which stress animals and lower their weights and thus the price fetched at livestock markets; (iv) poorly timed sales due to lack of feed and food during drought means selling livestock when prices are lowest, rather than selling when rains and livestock prices are good – as a result the quality of the livestock sold does not meet exporters' requirements without the use of holding grounds; (v) lack of public livestock price information resulting in an asymmetry of information between traders and producers. Some of those reasons can be addressed by services and infrastructure, but others are deeply rooted in longstanding selling and marketing practices.

7. Access to credit for pastoral producers is limited. Financial institutions operate in pastoral areas, although the main branches are located in urban centers and located far from rural livestock markets. Yet, recent technological advances have made it possible for financial services to reach pastoralists in a more accurate and timely way. Financial sector laws in Ethiopia, Kenya and Somalia are supportive of mobile payments.

8. Livestock value chains face a myriad of challenges depending on the country. In Somalia, the entire system of quality infrastructure to trace livestock and ensure consistency of quality standards is missing which contribute to lower prices for Somalia livestock exports as importing countries need to do additional checks. The Somalia Bureau of Standards was launched in March 2021 with the mandate to address these issues and needs support to establish robust quality infrastructure and promote exports through standards harmonization. In Kenya, there is a disconnect between pastoralists and the end markets, with limited information on livestock prices at different levels, including final destination, and a lack of proper infrastructure. Formal live animal exports from Ethiopia, especially cattle, have decreased in recent years resulting in a loss of export earnings. Ethiopian export abattoirs have difficulty in sourcing livestock from pastoral areas which meet export requirements. Djibouti has invested in a brand-new livestock port terminal with capacity to export 2.5 million heads per year, which operates at 16 percent capacity since the logistics to bring in and handle livestock in sufficient quantity to load ships are yet to be addressed.

9. The project is strongly aligned with the Africa Regional Integration Strategy and supports the Green, Resilient and Inclusive Development (GRID). Component 1 leverages digital and satellite technology to help pastoralists adapt to climate change and to reduce their exposure to climatic uncertainty. Instead of relying on humanitarian assistance which arrives too late, pastoralists will receive insurance payouts at the onset of drought allowing them to purchase supplies to keep their animals alive or draw on their savings facilitated under the project for smaller shocks. Component 2 will aim to mobilize private capital in the regional livestock value chains, by de-risking private investment when such investment makes commercial sense but is inherently risky given the target groups it seeks to benefit (pastoralists and agro-pastoralists). Through both components, pastoralists would be able to extract more value from their livestock, have access to reliable markets, reducing the need to maintain large herds, and the associated risk of overgrazing. The project complements the IFC HoA Livestock Sector Approach.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)



The project development objectives are to enhance pastoralists' access to financial services for drought risk mitigation, include them in the value chains, and facilitate the livestock trade in the Horn of Africa.

Key Results

10. PDO indicators are:

- Number of pastoralists having access to financial services and capacity building under the project (number, broken down by country - climate indicator).
- Percentage of pastoralists that received payouts within 30 days of official announcements of payout by calculation agent (citizen engagement indicator, measured after payouts have been triggered under the drought insurance)
- Number of pastoralist groups supported by the project and connected to markets, including savings groups (broken down by country).

Increase in livestock and livestock product trade (customized by country).

D. Project Description

There are 2 components to the project

Component 1: Package of financial services for climate resilience

11. This Component will support the provision of an integrated package of financial services to build the climate resilience of pastoralists. Currently, due to the vulnerability of pastoralists to shocks and limited financial awareness, the number of pastoralists engaging with formal financial services is low and insufficient for vulnerable households to cope with major drought shocks without external support. DRIVE will support the delivery of a sustainable package of (i) savings for resilience, (ii) index-insurance, (iii) digital accounts and (iv) financial education and awareness creation. The Component will be implemented regionally by ZEP-RE, the regional reinsurance entity of COMESA, owned by member countries. ZEP-RE will partner with the local private and financial sector to design and deliver the financial products. Savings will enable pastoralists to smooth their income and manage costs of moderate droughts, backed by insurance to provide timely payouts when severe droughts occur, and digital accounts to ensure quick and effective transactions. Over time more resilient pastoralists will be better placed to access credit to expand their productive capacity. DRIVE intends to develop the financial markets and systems for savings and risk finance, with a future phase to leverage and increase access to credit. Each pastoralist joining the program will have access to a savings account, an index-insurance policy, and a digital payments account to pay premiums and receive payouts.

12. The target beneficiaries will be pastoralist groups that are constituted around economic activities and have the potential to engage in commercial activities. At least 250,000 households per year will benefit by the end of the five-year program in Ethiopia, Kenya, and Somalia, representing at a minimum 1.6 million pastoralists and their dependents, with 250,000 digital accounts in use. Of the pastoralist groups benefiting, at least 1,500 Village Savings and Loan Associations will be supported and connected to markets. DRIVE will complement existing social protection programs³ and strengthen their graduation

³ The Hunger Safety Net Programme (HSNP) supported by the Kenya Social and Economic Inclusion Project (P164654), the Productive Safety Net Programme (PSNP) supported by series of projects (P163438, P169943), and the Somalia Social Protection Support Project (P168945) which supports the Baxnaano program.



strategies. It will facilitate the transition of more productive pastoralists from the fully funded social protection programs to a program where they are better linked to value chains (Component 2) and are thus able to contribute to savings and an insurance premium.

Component 2: Livestock Value Chains and Trade Facilitation

13. This Component intends to better include pastoralists in the livestock value chains and facilitate trade.

The pastoralist groups that benefit from Component 1 would be linked to investment opportunities under Component 2. The Component will support private investment in the livestock value chains so that pastoral producers can be linked to reliable markets and extract greater value addition from their livestock-rearing activities.

14. Three types of intervention are contemplated.

a. *Upgrading quality infrastructure.* The project will support capacity building and equipment to ensure compliance of livestock and livestock products with export standards. Quality infrastructure refers to testing facilities, traceability systems, certification services, inspection services and quarantine systems. It is critical to enable formal trade and enhance the quality of livestock and livestock products, to export higher value processed products (meat). Quality infrastructure will be the main focus of the project in Somalia and to a lesser extent in Ethiopia. Their quality standard agencies will benefit from in-depth capacity building from international firms and the project will facilitate peer-to-peer learning between all those agencies.

b. *Trade facilitation and trade logistics.* A significant portion of the live animal trade is unrecorded, which points to issues of costs, customs, or lack of efficient infrastructure to enable formal trade. The project will strengthen quarantine facilities and their efficient linkages to ports with digitization of export and sanitary certificates; it will also improve the logistics for the transit of live animals. The logistics processes to handle live animals and livestock products will be improved. In addition, data infrastructure to better capture livestock trade and prices will be supported. The project will also support trade facilitation measures such as capacity building to eliminate non-tariff trade barriers, and regional coordination of policy and procedural reforms at the targeted border crossings. In addition, the project could support capacity building on trade negotiations for cross-border livestock trade.

c. *Facility to de-risk private investment in the livestock value chains and support local productive capacities.* The project will provide financial support to de-risk private investments into the livestock value chains, focusing on a few demonstration investments to show that sustainable business models can emerge to benefit pastoralists. Investments will have to be private sector initiated, commercially viable, and benefit pastoral producers. The financial support will have two windows, one window for significant investments with substantial demonstration effects (i.e., that can be replicated and scaled-up) and a second window that will focus on women and youth business enterprises in pastoral areas.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50

No



Projects in Disputed Areas OP 7.60

No

Summary of Assessment of Environmental and Social Risks and Impacts

- 15. The project will be prepared under the Environmental & Social Framework (ESF), and all the Environmental and Social Standards 1-10 will be relevant.** The environmental risk of the Project is Substantial. While Component 1 has relatively limited direct impacts and is not expected to have significant indirect and induced adverse environmental impacts, Component 2 will be mostly TA, with the exception of Ethiopia where the project involves small scale civil works that entail some environmental risks and impacts. However, potential investments under Component 2 that (i) establish or upgrade testing, certification, and inspection services for livestock and meat value chains; (ii) establish quarantine facilities along the live animal trade corridors; and (iii) upgrade of primary and secondary market centers, are also likely to present environmental risks. These activities could result in habitat degradation or fragmentation, limited clearance of vegetation cover, pollution of groundwater and surface water resources, generation of air pollutants, noise, dust, risks to community health and safety, risks to workers' occupational health and safety, and overgrazing. The ESMF will include a screening procedure and a TOR for environmental and social impact assessments to be carried out after selection of sub projects, and which will recommend measures to avoid or mitigate significant adverse impacts.
- 16. The social risk of the Project is assessed as Substantial.** Under Component 1, there is a risk that due to the mobility nature of pastoralists, the outreach and meaningful consultations with pastoral communities may be limited. The insurance product relies on mobile money for fast payouts and there is a risk that not all pastoralist households will own a mobile phone, or that mobile connectivity may be poor and hinder access to these services. Under component 2, social risks related to the construction of infrastructure are possible, including land acquisition and resettlement impacts. Social risks and impacts will be covered in the ESMF and Social Assessment, which are under preparation and will be consulted upon and publicly disclosed prior to project effectiveness. Country-specific ESMF will be prepared to capture country-specific issues. Social assessments in Kenya and Ethiopia will identify potential risks of exclusion and social impacts of Components 1 and 2.

E. Implementation

Institutional and Implementation Arrangements

Component 1 – regional implementer

- 17. Component 1 will be implemented by ZEP-RE (PTA Reinsurance Company).** ZEP-RE is a specialized institution of the Common Market for Eastern and Southern Africa (COMESA) and an African multilateral insurance institution with a development mandate. Countries had the opportunity to assess options and noted that ZEP-RE would be well positioned to fulfill project management responsibilities. ZEP-RE will undertake financial management, procurement and environmental and social (E&S) risk management on behalf of the countries; and will provide a platform of shared services and risk infrastructure necessary for each country to scale up financial services access including insurance coverage. ZEP-RE will have staff in each country to liaise with authorities and provide regular reporting. ZEP-RE will sign subsidiary agreements with each country outlining their responsibilities, flow of funds, reporting and technical



assistance to countries, as well as the process for countries to oversee ZEP-RE's activities. ZEP-RE will convene at least every year a meeting of all the participating countries together to review the implementation of the project, and address issues of regional coordination on both components.

Component 2 – country specific implementing agencies

18. **For Component 2, each country will have its own project implementation unit (PIU).** In Djibouti, it will be the Ministry of Agriculture; in Ethiopia the Ministry of Agriculture (MoA) as the main coordinating PIU and the Ministry of Trade and Regional Integration (MoTRI); in Somalia the existing PIU within the Ministry of Finance will fulfill World Bank fiduciary duties initially; in Kenya the State Department of Livestock will be the main coordinating PIU, with the facility to de-risk private investment intermediated by the Kenya Development Corporation (KDC). Since the project is multi-sectoral in nature and involves several line Ministries (Finance, Commerce, Agriculture and Livestock, Quality Infrastructure Agencies, Central Bank, ZEP-RE), a steering committee will be established in all countries to oversee the project. This committee will meet every 6 months and will be supported by technical committees with staff from each line ministry to ensure the ownership and technical quality of the activities. ZEP-RE will attend the steering committee to ensure a strong link between the groups supported under Component 1 and the activities under Component 2.

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APPROVAL

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