

## **Federal Democratic Republic of Ethiopia**

---

### **Participatory Small-scale Irrigation Development Project II**

#### **Supervision report**

#### **Main report and appendices**

Mission Dates: 29 May to 9 June, 2017  
Document Date: 12-Jun 2017  
Project No. 2000001134  
Report No: 4495-ET

East and Southern Africa Division  
Programme Management Department

## Contents

Abbreviations and acronyms	iii
A. Introduction	1
B. Overall assessment of programme implementation	2
C. Outputs and outcomes	3
D. Programme implementation progress	9
E. Fiduciary aspects	11
F. Sustainability	13
G. Other	14
H. Conclusion	14

## Appendices

Appendix 1:	Summary of project status and ratings	15
Appendix 2:	Updated logical framework: Progress against objectives, outcomes and outputs	19
Appendix 3:	Summary of key actions to be taken within agreed timeframes	23
Appendix 4:	Physical progress measured against AWP&B, including RIMS indicators	25
Appendix 5:	Financial: Actual financial performance by financier; by component and disbursements by category	26
Appendix 6:	Compliance with legal covenants: Status of implementation	29
Appendix 7:	Knowledge management: Learning and Innovation	31

## Abbreviations and acronyms

ASAP	Adaptation for Smallholder Agriculture Programme
AWPB	Annual Work Plan and Budget
CBINReMP	Community Based Integrated Natural Resources Management Project
CGIAR	Consultative Group on International Agricultural Research
DA	Development Agent
DBE	Development Bank of Ethiopia
EF	Environmental Flow
EPLAU	Environmental Protection Land Administration
ESIA	Environment Social Impact Assessment
ESMP	Environment Social Management Plan
ETB	Ethiopian Birr
FPCMU	Federal Programme Coordination and Management Unit
FPIC	Free Prior and Informed Consent
GIS	Geographic Information System
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
ha	Hectares
HH	Household
IBEX	Integrated budget Expenditure
ICO	IFAD Country Office
IGA	Income Generating Activities
IWUA	Irrigation Water User Association
KM	Knowledge Management
LPA	Lead Programme Agency
MFI	Micro-finance Institution
MoANR	Ministry of Agriculture and Natural Resources
MoFEC	Ministry of Finance and Economic Cooperation
NPC	National Programme Coordinator
O&M	Operation and Maintenance
PAFT	Programme Agribusiness Facilitation Team
PASIDP	Participatory Small-scale Irrigation Development Programme
PDR	Programme Design Report
PIM	Programme Implementation Manual
PPE	Personal Protective Equipment
PY	Physical Year
QA	Quality Assurance
RAFT	Regional Agribusiness Facilitation Team
RMOS	Regional Markets Opportunity Study
RPCMU	Regional Programme Coordination and Management Unit
RuSACCO	Rural Saving and Credit Cooperative
SDR	Special Drawing Right
SECAP	Social, Environmental and Climate Assessment Procedure
SLMP	Sustainable Land Management Programme

SOE	Statement of Expenditure
SPA	Senior Programme Accountant
WA	Withdrawal Application

## A. Introduction<sup>1</sup>

1. The second phase of the Participatory Small-scale Irrigation Development Programme (PASIDP II) has been designed within the framework of Ethiopia's Poverty Reduction Strategy Paper, commonly known as the Growth and Transformation Plan II. IFAD has approved a loan and grant (on highly concessional terms) amounting to USD 103.5 million in total, representing 70.58% of the estimated cost of the programme. USD 11 million is also sourced from the Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund to improve climate resilience aspects. The Programme Financing Agreement became effective on 13 February 2017. The Government of Federal Democratic Republic of Ethiopia (GOE) and beneficiary households will contribute approximately USD 18.7 million and USD 12.07 million respectively, representing about 12.95% and 8.35% of the total programme costs. The Ministry of Agriculture and Natural Resources (MoANR) is the lead programme agency (LPA) with responsibility for coordinating programme implementation in collaboration with the respective Regional State of Amhara, Oromia, SNNPR and Tigray.
2. The Programme objective is to provide improved income and food security for rural households on a sustainable basis by developing small-scale irrigation schemes and adjacent watersheds.
3. This first IFAD Supervision and Implementation Support Mission visited the Programme Area from 29<sup>th</sup> May to 3<sup>rd</sup> June 2017. The key objective of the mission was to: (i) review the start-up of the programme implementation; (ii) assess the adequacy of institutional arrangements made to ensure effective programme coordination, management and implementation at regional and federal levels; (iii) critically assess compliance with provisions of the Financing Agreement particularly with regard to (a) eligibility criteria for construction or upgrading of irrigation schemes, (b) establishment of an M&E system, (c) preparation of a baseline survey, (d) financial management and reporting including audit, procurement, etc; (iv) jointly review, with local stakeholders, the farmers' ability to acquire increased market-oriented skills and capacity for sustainable agriculture; and, (v) propose measures to improve the responsiveness of the AWP&B to identified needs and priorities of the target group while enhancing overall performance and the pace of programme implementation.
4. A brief meeting was held in Addis Ababa on 29<sup>th</sup> May 2017, and was attended by key stakeholders including staff from MoFEC, the national and regional PCMU, Regional Bureaus of Agriculture and Natural Resources, and CGIAR Agencies. The meeting provided a good opportunity for the Mission to jointly review with the key stakeholders the implementation status of the project, identify major challenges and bottlenecks encountered during implementation and propose appropriate corrective measures consistent with the Programme's strategy, approach, and implementation arrangements.
5. Following preliminary consultations with stakeholders at federal level, the Mission undertook field visits to Amhara, Tigray, and SNNPR to interact with field level staff, local communities and beneficiary households. Oromia's Region Programme Coordination and Management Unit (PCMU) team participated in the field visits to SNNPR.
6. The Mission would like to take this opportunity to express its appreciation for the support extended by MoANR, FPCMU, RPCMUs and regional bureaus. The mission was

---

<sup>1</sup> Mission composition: The mission was led by Ulaş Demirag, Country Director. It comprised two teams. The North Team consisted of: Ulaş Demirag, Jorma Ruotsi (Rural Finance Specialist), Arundhati Willetts (SECAP Specialist), Guido Rutten (Watershed Management & Climate Change Specialist), Beyene Tadesse (Agribusiness Specialist) and Tony Peacock (Irrigation/Water Management Engineer). The South Team consisted of Frew Behabtu (Deputy mission Leader, CPO) Andrew McPherson (Agronomist/Value Chain Specialist), Samir Rayess (Knowledge Management Specialist), Befekadu Behute (M&E Specialist), Dagim Kassahun (CPA). The north team was accompanied by the following FPCMU staff ; Nuredin Asaro (National Project Coordinator), Yohannes Kebede (Senior Irrigation Engineer), Desta Hordofa (M&E Specialist), Melkie Fenta (Watershed Management & Climate Change Specialist). The South Team was accompanied by the following FPCMU staff ; Kefyalew Tsegaw (Capacity building & Gender Specialist) Daniel Tedla (Senior Irrigation Engineer), Moges Kassie (M&E Specialist). The mission was joined in Addis Ababa by Robert Creswell (Senior Finance Officer) and Richard Batamanye (Financial Management Specialist) after their short mission to Hawassa.

overshadowed by the tragic passing away of Ato Tadele Mugoro, Regional Coordinator for the SNNPR. The mission extends its heartfelt condolences to his family, the PASIDP II team and the Government of Ethiopia. May his soul rest in perfect peace.

## **B. Overall assessment of programme implementation**

7. There were 4,900 ha of small-scale irrigation under construction by the time of the mission, in 25 separate schemes distributed throughout the regions. These had been studied and designed prior to loan effectiveness, using retroactive financing. This far exceeds the expectations of the AWPB which did not envisage any schemes being completed until early 2018. Hence physical progress can be rated as more than satisfactory.
8. The mission noted the strong organizational and social cohesion of farmers as the operators of newly constructed schemes. A further positive aspect is that most of these groups have had initial contact with local MFIs. The farmers correctly expect that use of the schemes will result in improved food security and incomes for their families. The mission was also impressed by the competence and enthusiasm of irrigation engineers deployed on the Programme. However, there is scope to strengthen the present arrangements for quality assurance of feasibility studies and designs, including internal consistency and presentation of the various reports which make up the feasibility reports. This will further reduce the risk of investing in unviable and unsustainable schemes and enhance the likelihood to meet the expectations of farmers.
9. The mission is also concerned that participation by the prospective users in the study, design, bidding and construction processes has been patchy – although it is acknowledged that the schemes under construction were, in effect, designed under PASIDP I. The process will have to be considerably strengthened for new PASIDP II schemes, in line with the intentions of the PDR.
10. Overall, the program appears to be being implemented as a continuation of PASIDP I, and not as a new programme containing numerous innovations required to respond to the lessons of the previous programme. The implementation of PASIDP II is to be guided by five inter-related and mutually supportive principles; these are:
  - a) Full and effective participation by all stakeholders, especially the target group, throughout the processes of planning and implementation;
  - b) Technical viability, especially the reliability of water supply to provide for the command area as planned;
  - c) A landscape approach to watershed management, ensuring that irrigation command areas and downstream private and public facilities are protected, and providing for sustainably enhanced productivity within watershed areas contiguous with irrigation schemes;
  - d) Inclusiveness for all community members associated with the irrigation schemes, whether or not they are actively involved as irrigation farmers; and,
  - e) Ensuring scheme financial viability, through training in agribusiness skills and market access for all the participating farmers.
11. The long-term viability and sustainability of schemes will depend on these principles being applied effectively at the scheme level. The experience of PASIDP I showed that there is capacity to design and build irrigation schemes, but that the evidence of farmers being able to operate them with technical and financial viability is less compelling.
12. In this context, the mission considers the following risks to be critical for the successful implementation of the programme and the achievement of its development objective:

- a) Inadequate participation of farmers during scheme selection, feasibility, design and implementation. The mission revised the relevant sections of the PIM to further strengthen the process for systematic adoption at all levels of implementation.
  - b) Inadequate capacity in providing urgently required training and facilitation for business planning and commercial linkages. It is therefore agreed that the program would support the engagement of a service provider to support the application of the required tools at national, regional and Woreda levels. The short-term objective would be for a modest number of schemes to be planned, constructed and put into operation in each region during the forthcoming two years using these principles, and with this support. This would provide operational models for subsequent scheme identification, planning and construction.
  - c) Inadequate quality assurance of engineering designs, coupled with a complete lack of analysis of agronomic and financial viability of schemes during the design process. This exacerbates the risk that technically and/or financially unviable schemes being constructed. It has been agreed that the RPCMU establish an appropriate mechanism for Quality Assurance of scheme designs, involving an arrangement to contract experienced consultants with substantial practical experience in scheme design and supervision.
  - d) Inadequate liquidity in the rural financial sector to serve the additional needs for credit from the farmers benefiting from the programme. It has been agreed to explore with the Development Bank of Ethiopia the possibility to use the reflows of the line of credit under the Rural Financial Intermediation Programme (RUFIP I and II) to provide additional liquidity to RUSACCOs that serve the Kebeles that benefit from PASIDP II.
  - e) The PCMU has been established in line with the conditions precedent to disbursement under the financing agreement. However, remaining positions need to be urgently filled. It has been agreed that the FPCMU closely monitor and prioritize the finalization of the recruitment processes to ensure that all positions are filled by 31 July 2017.
13. The mission team has reviewed the PIM and provided input to amend the document. It has been agreed to update the PIM based on the feedbacks and comments and share to IFAD for review before endorsing by the steering committee by 30 June 2017.

Agreed action	Responsibility	Agreed date
Amend and communicate the PIM to ensure farmers' effective participation in scheme design	FPCMU, Steering Committee	30 June 2017
Recruit Technical Assistance for business planning & commercial linkage	FPCMU, RPCMUs	30 August 2017
Procure consultant(s) to carry out comprehensive QA for scheme design, including agronomic & financial analysis	FPCMU	30 August 2017

## C. Outputs and outcomes

14. **Component A1: Investments in Small-scale Irrigation Infrastructure.** The intended outcome of this component is that farmers have sustainable access to irrigation schemes. Some 4,900 ha of irrigation schemes are currently under construction and likely to be completed by early next year. A further 1,200 ha are currently being designed or are ready for 'no objection' to proceed with construction. Altogether, these should accommodate a total of at least 11,800 farmers at 0.5ha per farmer. At this early stage of the Programme, therefore, good



progress is being made towards achieving the end target of 46,250 farmers being provided with access to irrigated farming.

15. However, this assessment must be qualified by the mission's reservations regarding quality assurance for studies and designs, as well as varying levels of involvement of IWUAs in the process, both of which cast doubt over the sustainability of the schemes. Little action has been taken on capacitating the IWUAs in the way foreseen by the PDR to enable them to take ownership of the schemes and responsibility for O&M. Indeed, IWUAs at new schemes had not yet been informed of, and had therefore not yet formally agreed to, the likely cost of scheme maintenance. This has clear implications for sustainability. While interviewing IWUAs' members, it was evident that information collection and dissemination at Kebele and Woreda level was lacking a formal reporting system. Although the IWUAs' reported meeting with farmers, none of these had written records of the meetings held. The intended process for scheme selection consists of three steps, from identification to prefeasibility assessments and feasibility studies, all of which are intended to be carried out in a participatory way, fully involving the prospective users. Schemes found to be technically and financially viable are then submitted for detailed design, which too is supposed to be carried out in a fully participatory way. Judging by field interviews, the indications were however that under PASIDP II, participation in scheme development to date had not always been as effective as intended. A possible explanation for this is that the schemes under construction had all been designed under PASDIP I, for which the requirement for participation was not as rigorous as in PASIDP II. **To emphasize the intended participatory nature of the process more systematically in implementation, it has been agreed that the relevant sections of the PIM will be updated by 30 June, 2017.**
16. Furthermore, even if the Programme had followed the intentions of the design it is clear that the IWUAs established to date remain weak and in their present condition they may not have been able to fully contribute as expected to the study and design process. This was foreseen by the PDR and a subcomponent was provided to support their formation, strengthening and engagement. **It has been agreed that the FPCMU recruit a competent service provider for support to capacitating IWUAs and strengthening participatory processes as soon as possible.** Key elements of the TOR and qualification of experts are contained in Annex V (A).
17. Under the present arrangements, studies and designs are carried out either by the regional Water Resources Bureau or regional design and construction public enterprises, although the arrangements vary from region to region and scheme to scheme. Each report produced is reviewed for quality assurance purposes by one or other of these public enterprises, or sometimes by a private consultant. The output from these exercises is a large number of separate reports that are intended to stand alone, but do not do so. On the positive side, it is generally clear that the authors of the various reports have generally done a thorough and professional job. On the negative side, presentation is weak and fragmented and there are internal inconsistencies. There are also some cases of incoherence in the logic, which renders some of the reports somewhat opaque. This casts doubts on the integrity of the quality assurance process, which obviously cannot be allowed to continue. **To remedy this, it has been agreed to recruit a service provider for Quality Assurance to provide support to capacity building for studies, designs and quality assurance, including best practice report presentation.** This is to be financed from the ASAP grant given the strong opportunity to enhance climate resilience.
18. **Spate irrigation.** The Programme has already constructed improvements to a traditional spate irrigation scheme in Amhara region. This features a 'bed bar', which the FPCMU considers to be an improvement over a conventional weir section because it is less likely to be damaged by major floods (which have wrecked previous attempts) and presents considerable cost savings. Spate irrigation however remains more of an art than a science and there are some question marks over the engineering design of the diversion – particularly regarding the frequency and duration of floods (and hence the design of the offtake and main canal) and sediment exclusion – and FPCMU readily admits that it still has much to learn about the art. **It is therefore**

- proposed to recruit a specialist in spate irrigation to provide training and mentoring for Programme and Service Provider engineers, by means of a series of training events, preparation of a design manual and oversight of the design of the next spate irrigation scheme.** Given the specialized nature of spate irrigation and the dearth of experienced specialists worldwide, it is recommended that a suitable candidate be single-sourced, in consultation with IFAD. As spate irrigation is highly sensitive to changes in flooding patterns, the consultancy would be financed from the ASAP grant and would include assessing climate change impacts on river flows.
19. **Environmental Flow:** for some schemes, environmental flow (EF) has not been adequately accounted for. At Federal level at the moment no guidelines are available for establishing EF. There are numerous internationally accepted methodologies available to establish EF, but the simplest is the Tenant Method that stipulates EF as being set at a minimum of 10% of the mean annual flow. **It is agreed that determining EF is very important to scheme sustainability, that guidelines to determine EF be included in the PIM, and that a QA process is established to ensure compliance with EF requirements.**
  20. **Occupational Health & Safety:** Although farmers appear to be aware of the need to use personal protective equipment (PPE) during the handling and application of agrochemicals, these are rarely worn. **It has been agreed that in concert with more rigorous sensitization by Kebele DAs, the IWUA by-laws should be amended to include a clause on the compulsory use of PPE when applying/handling agrochemicals.**
  21. **Component B: Investment in Capacity for Sustainable Agriculture.** The expected outcome of Component B is that “farmers have increased market-oriented skills and capacity for sustainable agriculture”. Component B supports a range of activities designed to ensure that the farmers operate in an environment that is more conducive to rural commercial development. This includes strengthening of farmers’ cooperatives, the development of agribusiness linkages and access to financial services, as well as application of improved crop husbandry practices mainly through farmers’ research groups and extension support.
  22. The mission observed at all schemes visited, that these aspects have not received the required attention during scheme design and implementation, putting the investments by the Programme at high risk of failure, as the commercial viability for the users is essential to guarantee sustainability of the schemes. The mission notes that there is so far little application of the required functions due to the scale of the requirements. With only one specialist available within the RPCMUs, it is recognized that there would need for additional specialist support for achievement of this outcome. **Accordingly, it is agreed that the implementation of these key tasks under Component B will be supported by the formation and deployment of a Programme Agribusiness Facilitation Team (PAFT) at the Federal level, recruited through a highly qualified organisation.** The team would comprise two or three highly experienced individuals with expertise in Rural Marketing Chain Development, Agricultural Produce Marketing, Rural Finance and Agricultural Productivity. The PAFT will devise a strategy and time-table for support at the national level, provide a link to policy makers and high-level market entities, and provide direct technical support at Regional levels. **It was further agreed that Regional Agribusiness Facilitation Teams (RAFT) will be recruited at regional level for direct support within the region.** Each RAFT will provide direct training and mentoring for all cooperatives engaged at each irrigation scheme, and will convene and subsequently provide training and mentoring to Market Access Alliances involving relevant commercial entities. The RAFT will comprise of experts with skills relevant to the training and mentoring of participants in rural value chains such as Agricultural Economics, Agribusiness, Rural Finance and Crop Production Technology, and would ideally be recruited through the same organization as for the PAFT.
  23. **Strengthening of farmers’ cooperatives, development of agribusiness linkages and access to financial services.** The **Regional Markets Opportunity Study (RMOS)** has not yet

- been implemented, as intended at design, limiting the market knowledge available for scheme design and operation. During the interactions with the users of the existing schemes, the mission noted that crop decisions are made without consideration of market demand in terms of quality, quantities and prices. Often, this results in farmers not being able to sell their produce once harvested. Given the vital importance of market information for the establishment of viable business plans for the scheme users, **it has been agreed that the FPCMU, in close collaboration with the RPCMUs implement the regional market opportunities study by recruiting the appropriate specialist consultant and working closely with them.** Key elements of the TOR for this study are contained in Annex V (D).
24. The effects of the limited participation in selection, feasibility, design and implementation of the irrigation schemes become obvious when considering the business aspects of the schemes. Farmers under PASIDP I schemes are not advised on the likely costs for maintenance and repair of water delivery structures, and as a result, make little or no provision for these costs. This is now being changed under PASIDP II schemes. Identification of appropriate crops and markets for them has not previously been a significant part of the design process. As a result, farmers almost always initially believe that the only acceptable option for their production is in intensive horticultural crops. This is unrealistic, especially in areas remote from major population centers. To improve the processes leading to the implementation of each scheme, **it has been agreed that the FPCMU and the RPCMUs ensure full and effective participation by potential irrigation farmers in scheme design, construction and commissioning, and that the FPCMU ensure that comprehensive scheme feasibility studies are prepared, shared and agreed with farmers.** These would include an initial comprehensive business plan, that would be informed by the results of the RMOS. The plan would detail: proposed crops taking into account vulnerability to changing climate, rotations, agronomy; likely markets and marketing arrangements; levels of financing required and sources of finance; revenue and profitability at scheme and individual farmer levels; form of farmer commercial organisation (cooperative); and, the technical and engineering details of the physical scheme.
25. **Income Generating Activities (IGAs).** Several of these are proposed for implementation in association with irrigation schemes and surrounding watersheds. However, these are not being implemented with the benefit of simple business plans. **It has been agreed that the FPCMU, in close collaboration with the RPCMUs ensure that all IGAs are commenced based on simple and realistic business plans. These would identify the technical basis of the IGA, costs, revenues, likely markets and risks.** A simple template for this can be found in Annex IV.
26. **Access to Financial Services.** Access to appropriate and accessible financial services is a key factor to enable the planned productivity improvements and income increases for the PASIDP II participants. According to project design, PASIDP II contributes to improved financial services at project sites by supporting the formal financial sector through provision of information and technical assistance and by facilitating linkages between the smallholders and local financial institutions.
27. Mainly due to the recent commencement of implementation, very little has so far been achieved in PASIDP II rural finance operations, although it is the intention of the program to focus on this requirement in the future. Although the AWPB 2017-2018 includes only one small budgeted activity in this area (one technical support mission), it is not finance per se that is required, but rather the intention and application at the field level to ensure that rural finance needs are given prominence in planning and implementation.
28. It became clear during the mission that most scheme participants had only very vague and often impractical ideas of how to finance their irrigated farming operations. Many expected to receive the required farm inputs on credit from the Government, which is not the case anymore. Clearly, a more proactive approach by the programme is required in the planning and implementation of its rural finance support, if the key PASIDP II targets are to be reached.

29. To improve the situation, **it was agreed that as a part of the design of each site-based business plan, an assessment of the requirements for external finance for the planned agricultural activities will be carried out.** This will be followed by plans on how to connect the target farmers in practice to local financial institutions. As both the assessment and linkage operations require specific skills, it was agreed that the PAFT and RAFT teams will include persons with appropriate experience in such financial sector linkage operations. More generally, **it was as agreed that a key approach when making the site-based business plans is the full integration of the input procurement, rural finance and produce marketing operations, to ensure that the plans will be practical and fully implementable.**
30. Two types of local financial institutions serve the areas where the PASIDP II sites are located. First, kebele-based RuSACCOs have offices close to most of the sites. Their services include the relevant savings and credit products that the irrigation site participants require in their activities. Second, large region-wide MFIs operate in each of the four PASIDP II regions, serving rural clients in kebeles from their woreda offices either by mobile Credit Officers or through small satellite offices. The MFIs, too, have appropriate products to serve the irrigation scheme members (see more in the Annex IV). **It was agreed that the PASIDP II implementers work proactively to introduce the PASIDP II operations and participants to the RuSACCO and MFI local staff and stress the manner the irrigation-based operations reduce the credit risks of the financial institutions. It was further agreed that the target is that all the PASIDP II smallholders would open an account either in a RuSACCO or an MFI, or both.** The objective is that the scheme participants would benefit from the services of these institutions at least in the following way:
- Voluntary savings accounts: accumulation of capital for future investment needs;
  - Regular monthly savings (RuSACCOs): larger loan allocation through the loan multiplier;
  - Input loans: to cover, together with savings, the costs of seasonal input procurement;
  - Investment loans: acquisition of small to medium-scale capital assets for irrigation farming.
31. Outside the actual irrigation schemes, one of the key objectives of the PASIDP II watershed operations is to encourage new income generating activities in the improved watershed areas, particularly in operations such as small livestock rearing and beekeeping. These operations also offer opportunities for targeting at persons with less land and other assets. **It was agreed that the programme implementers systematically introduce potential IGA clients to RuSACCOs and MFI offices, to initially open savings accounts.** Through regular savings, small collateral-free loans can later be applied for, to make possible the small investments in livestock operations on the improved watershed.
32. The project design assumed that the PASIDP II clients would benefit from the large fund injections to the financial sector by the new World Bank SME Finance Project. This project, however, will serve a target group well above the scale of the PASIDP II irrigation farmers. Some agro-processors and larger traders may benefit of these services later, when the PASIDP value chain operations are developed. At the same time both RUFIP I and RUFIP II have liquid funds in the DBE that can be revolved to support the liquidity of rural finance institutions, which will be further detailed in a technical Annex IV. **It has been agreed to explore with the Development Bank of Ethiopia the possibility to use the reflows of the line of credit under the Rural Financial Intermediation Programme (RUFIP I and II) to provide additional liquidity to RuSACCOs that serve the Kebeles that benefit from PASIDP II.**
33. **Watershed Management.** The objective of this sub-component is to improve land and water management on 60 000 ha of rain-fed land adjacent to irrigation schemes, while addressing the socio-economic root causes of land degradation. The project works through Watershed Management Teams, formed from the communities, who are assisted to develop micro-watershed management plans for areas up to 500 ha. These plans are supposed to cover not

- only the soil and water conservation aspects of watershed management, but also address opportunities for income generation through rain-fed agriculture as well as other enterprises, such as beekeeping and animal fattening.
34. The approach and level of implementation success to date is variable across regions. In Amhara, where the community-based watershed management approach is already well instituted and many watersheds have already been partially restored, the focus is now on improving the income generation aspects to ensure sustainability. In other regions, there is still a need to build capacity in terms of planning and facilitating community-based watershed management, mobilizing communities and developing realistic and implementable watershed plans that adequately deal with risks posed to the irrigation scheme. Here, there is a good opportunity for peer-to-peer learning, including with the IFAD-funded CBINREMP and the national SLMP. To do so, it is agreed that the project will organize a technical workshop with federal and regional watershed management specialists and agribusiness specialists, as well as experts from other projects, focused on addressing issues arising in PASIDP-II.
  35. Topics that will be discussed in the workshop include: (i) community engagement and process facilitation, (ii) creating linkages between ESAs, ESMPs and micro-watershed plans, (iii) how to identify, assess and enhance opportunities for climate-resilient income-generation in the watershed, (iv) dealing with mixed crops-livestock systems in watersheds, (v) addressing climate change issues in watershed planning, and (vi) monitoring, evaluating and learning about what works and what doesn't work. Beyond the workshop, there will be continued inter-regional exchanges to exchange ideas and build capacity.
  36. The targeting of watershed management interventions has posed challenges to the project management. Where national guidelines stipulate a top-to-bottom approach in implementing soil and water conservation works, some of the schemes are located on floodplains far away from the highest points and degraded slopes. For these cases, it is agreed that flexibility should be exercised when implementing watershed management and that activities should focus on the surrounding areas and local issues, such as dealing with competition over natural resources between agriculture and livestock. The technical appendix on watershed management will provide further detail on this.
  37. Income generating activities in the watershed can only become a success if there is a market, a sound business model, and financing available. Learning from past experiences, the project needs to better assess these aspects before promoting specific activities, and to do so it is essential that the watershed management specialists and agribusiness specialists work together and make use of the simple IGA assessment tool to be developed. Furthermore, more effort needs to go towards introducing Farmer Research Groups focusing on viable rainfed crops, and on the promotion of Conservation Agriculture. Here, the PCMU will mobilize additional support from national research centres as well as the CGIAR.

Agreed action	Responsibility	Agreed date
Update PIM to ensure a more participatory approach to scheme design.	FPCMU	30 June 2017
Recruit a Service provider for support to capacitating IWUAs	FPCMU	30 August 2017
Include in the PIM a minimum environmental flow requirement of 10% of the mean annual flow, or as stipulated in Federal/Regional regulations; and integrate into QA process	FPMCU	30 June 2017
Introduce compulsory clause for IWUA by-laws regarding use of PPE when handling agrochemicals	RPMCU	15 July 2017
Recruit a consultant for training and mentoring in	FPCMU	30 August 2017

spate irrigation		
Recruit a service provider for Quality Assurance to studies and designs	FPCMU	15 August 2017
Recruit Agribusiness Facilitation Teams at Federal and Regional levels	FPCMU & RPCMU	15 August 2017
Implement the regional market opportunities study	FPCMU & RPCMU	30 Sept. 2017
Introduce simple and realistic business plans for IGAs on.	RPCMU	31 July 2017
Integrate input procurement, rural finance and produce marketing operations into scheme designs	FPCMU & IFAD	30 June 2017
Improve the liquidity position of RuSACCOs through provision of reflow funds	MOANR, MOFEC, DBE	31 August 2017
Organize technical workshop on watershed management	FPCMU Watershed Management Specialist	30 Sept 2017

#### D. Programme implementation progress

38. **Establishment of the PCMU.** The PCMU has been established in line with the conditions precedent to disbursement under the financing agreement. Remaining positions to be urgently filled include the Senior Financial Manager, the Programme Procurement Officer, the Senior Environmental Safeguard Specialist and Senior Agribusiness Specialist. These recruitments have been delayed due to the inability of the implementing agency to attract sufficiently qualified incumbents. All positions have been re-advertised. At the regional level, severe staffing gaps have been noted in SNNP Region, where the positions of the Agribusiness Specialist and Social and Environmental Safeguard specialist remained vacant, constituting a notable capacity gap. With the tragic passing away of the Regional Coordinator, a qualified incumbent for this essential role is urgently required. In Tigray, the GIS Specialist and Agribusiness experts are vacant, while in Oromia, only the GIS Specialist is yet to be recruited. **It has been agreed that the FPCMU closely monitor and prioritize the finalization of the recruitment processes to ensure that all positions are filled by 31 July 2017.**
39. **Programme steering committees** as well as the technical committees have been established at all levels (Federal, regional and woreda ) of programme implementation.
40. **Management and coordination.** As noted above, programme implementation has so far focused on the construction of irrigation schemes, while attention to market linkages, access to financial services, agricultural support services, watershed management activities and linkages among the sub-components varied across the regions. Moving forward, it will be crucial that all these aspects are interlinked and that the various actors are coordinated in an effective way to ensure that the programme's clients receive the services they require to operate successfully. As a means to achieve this, **it has been agreed to prepare scheme-based comprehensive timelines for all critical activities, so as to ensure that all actors involved sequence their activities and collaborate effectively to achieve the programme's outcomes at client level.**
41. **Monitoring and Evaluation (M&E).** The mission has reviewed the draft monitoring and evaluation manual and observed that it lacks specific and efficient templates for the collection and analysis of data. It was also observed that the mandatory indicators to report on IFAD's Result and Impact Management System (RIMS indicators) are not captured appropriately. Accordingly, **it has been agreed that the FPCMU revise the M&E manual to include templates for data collection and analysis and include IFAD's RIMS indicators.** Progress reporting is currently not done against targets, and progress reports are currently not systematically labelled (i.e. progress reporting on new design study, revision of design study,

- construction completed, scheme operational, etc. need to be labelled appropriately for better monitoring and informed decisions (See Annex VII).
42. Particular attention on outcomes, can become a driver for coordination and focus during scheme design and implementation.
  43. **Baseline study.** The recruitment of a consultant to carry out the baseline survey has been delayed. Currently, expressions of interest are being evaluated. **It has been agreed that the FPCMU expedite the procurement of the consultant to be finalized by 31 July 2017 and prepare a detailed timeline for the process and completion of the baseline study.**
  44. **Knowledge management (KM).** The design of PASIDP II acknowledges the need for the development of a comprehensive Learning and Knowledge Management (L&KM) Strategy during the programme's first year in order to provide the basis for the systematic compilation and dissemination of knowledge internally and externally, and ensuring the implementation of the lessons from the previous phase. The AWPB shows that PASIDP II has taken a proactive role in this regard by scheduling the development of the L&KM Strategy during the first year. Once the L&KM Strategy is prepared, the ICO will review it and provide feedback to the Federal PCMU. The Knowledge Management and Learning component of the PIM for PASIDP II acknowledges the importance of the line of communication between the IWUA Committee members and the Kebele community. The line of communication should be clear and follow a standardized system to ensure that the issues discussed are comprehensive and relevant, and also ensuring timely reporting. For this matter, the PIM could include standardized templates for reporting at Kebele and Woreda level.
  45. **Social, Environmental and Climate Assessment Procedures (SECAP).** At Federal level the recruitment process for the Environmental Safeguards Specialist and Social Safeguards Specialist is ongoing, and these specialists are expected to be in place by end July 2017. The Regional Safeguard Specialists have been recruited in three regions, and they appear to have appropriate qualifications and enthusiasm to execute their responsibilities as per the PIM.
  46. The PIM and ESMF have been disseminated to all four regions. Training in SECAP requirements at Federal and Regional Level has not yet been carried out, although some Regions have provided training in environmental and social aspects to Woreda and Kebele teams. ESIA reports have been prepared for some projects, and others have been updated in an attempt to conform to SECAP requirements. The quality of ESIA reports and ESMPs could be improved, through for example, incorporating into the ESIA reports information and data included in other reports in the feasibility suite of documents. Screening has been done using the screening checklist in the PIM, but there is no link between screening and the ESMP. In general, the format of the ESIA/ESMP reports follow the headings proposed in the ESMF, but detail on specific key issues is lacking. For example, given that water availability is the most fundamental resource for irrigation schemes, the baselines in the ESIAs/ESMPs only cursorily describe the hydrology of the river from which water is to be drawn for the scheme. Environmental flow is mentioned in some reports, but usually only in terms of water demand by livestock. Few reports discuss loss of land/assets due to project infrastructure and associated compensation requirements. It has been agreed that once the Federal Safeguards Specialists are in place, IFAD will make arrangements for training the Federal and Regional Safeguards Specialists in SECAP requirements as contained in the PIM. The training will, among others, assist the Specialists to identify critical gaps in the ESIA/ESMP reports so as to improve their quality, and to be able to provide useful input to the scheme design and implementation to ensure sustainability. The Regional Safeguards Specialists will then roll out training to woreda focal persons and technical experts as well as kebele development agents, focusing on, inter alia, screening, grievance redress mechanisms, stakeholder engagement and communications and monitoring.
  47. Grievances have arisen during construction, but processes for grievance redress have not been effectively communicated to the farmers and communities. For example, there have been cases

where water flowing into traditional schemes has been disrupted during construction. The PIM describes the PASIDP grievance redress mechanism. However, once training has been carried out at the various administrative levels, implementation of the grievance redress process will be made clearer, and it is anticipated that the grievances will be avoided or swiftly resolved.

48. Grievances can also be minimized if communities are involved in the development of the scheme from its inception and properly informed of proposed project activities. While the PASIDP II approach aims to be fully participatory, observations from the field indicate that this is not so. Free Prior and Informed Consent (FPIC) was reportedly obtained for each scheme currently under construction, but the extent to which communities were informed about project activities and potential impacts is not clear. The proposed training will cover FPIC requirements in detail. To support this, it was agreed that the PIM includes a section after the Section III Programme Management and Implementation Arrangements describing the stages at which the communities' involvement/feedback should be sought.
49. Environmental and social monitoring during construction has not been undertaken. This has been attributed to lack of facilitation, but there also appears to be a lack of inter-office coordination. For example, Burka woreda, although funds for monitoring have been provided to the woreda agricultural office for this purpose, the environmental team (EPLAU) has not been involved in monitoring scheme construction. There is therefore a need to enhance coordination between the various line agencies involved at woreda level, particularly for monitoring. Paragraphs 74 and 78 in the current PIM will be amended to reflect this.

Agreed action	Responsibility	Agreed date
Finalise recruitment of Environmental and Social Safeguards Specialists	FPCMU	End July 2017
Train Safeguards Specialists at Federal and Regional level to be carried out as soon as Federal PCMU Safeguards Specialists have been recruited.	IFAD Safeguards Specialist	August 2017
Update PIM to ensure participation of EPLAU at woreda level	FPCMU / IFAD Safeguards Specialist	July 2017

## E. Fiduciary aspects

50. **Financial management.** A financial management assessment of PASIDP II has returned a medium risk. The key issues are delays in implementation of accounting software; delays in preparing retroactive financial reports and interim financial reports; and delays in the recruitment of a National Programme Finance Manager. The financial management personnel structure at Oromia, Amhara and Tigray is incomplete with the Regional Programme Accountant performing all accounting roles, leading to lack of segregation of duties. The mission rates the quality of financial management as **moderately satisfactory**. **It was agreed that the RPCMU fast track the recruitment process for the vacant finance positions to have them filled as soon as possible.**
51. **Financial Management Information System.** PASIDP II inherited Peachtree accounting software used under PASIDP I. At start up, it was proposed that the latest, licensed Peachtree (Sage 50) be procured from an authorised partner/representative. The Programme, with guidance from MOANR opted to open up the process for a procurement of the software. Whereas the mission is in agreement with the approach to competitively procure the same, it emphasises the need to identify software capable of meeting the reporting requirements of PASIDP II and having an in-Country support. The mission noted that government's Integrated Budget Expenditure (IBEX) accounting system has not been sufficiently rolled out for use by the programme but remains an option for future use when it has been fully tested. **It was agreed that the FPCMU implement accounting software in accordance with a comprehensive and consistent chart of accounts at FPCMU and RPCMU satisfactory to IFAD not later than 30 September 2017.**



52. **Budget Utilisation.** The first 18 months budget is USD 57.12 million. Overall, this budget represents an ambitious 39% of the total programme budget at appraisal of USD 145.28 million. As of 31 May 2017, expenditure of USD 0.92 million (45% of retroactive financing budget and 1.6% of the 18 months budget) was reported. Withdrawal applications (WAs) 3 and 4 of ETB 99.01 million (USD 4.36 million) submitted at the end of May 2017 puts the expenditure at USD 5.28 million representing 9.2% of the 18 months budget. This performance five months into the budget period is low and is an indicator that it may have been over-estimated. **It was agreed that the RPCMU monitor the budget performance with a view of revising it to realistic targets if found exaggerated.**
53. **Disbursement.** As of 31 May 2017, IFAD Loan was 9.97% disbursed (SDR 7.27 million of SDR 72.95 million allocated) including the authorised allocation while on the IFAD grant only the authorised allocation of SDR 73,628 had been disbursed. The actual disbursement on the combined IFAD loan and grant is SDR 7.34 million (9.9%) of the total allocation of SDR 74.03 million leaving a balance of SDR 66.69 million to be accessed by the Programme from IFAD. The ASAP grant has only disbursed the authorised allocation of SDR 0.66 million representing 8.4% of the SDR 7.87million allocated. Further, of the allocated retroactive financing amount of USD 2.00 million, 0.92 million was achieved. The IFAD loan, compared with a project of the same disbursement profile in the first year of implementation actual disbursement performance is considered **satisfactory though the disbursement drivers have been the advances.**
54. **Review of the designated account and other programme accounts.** Except for the authorised allocation of USD 10.00 million (equivalents of SDR 7.33 million) transferred on 21 April 2017 no further deposits have been made on the designated account. By 31 May 2017, USD 5.00 million had been transferred to the programme operating account realising ETB 113.97 million, out of which ETB 33.47 million has been transferred to RPCMUs. A combined total of equivalents of USD 8.52 million was still held on the designated account and the programme account at FPCMU. It was observed that whereas the authorised allocation is accounted for, the designated account was not reconciled for the month of April 2017 on the basis that no replenishment withdrawal application was prepared. **It has been agreed that the designated account reconciliation is an internal control tool that will be done on a monthly basis.**
55. **Statements of Expenditure (SOEs) Spot check and quality of withdrawal applications.** The mission reviewed the “Smart SOEs” supporting WA number 3 reimbursed in respect of retroactive financing. The random selection of 59% (ETB 11,982,260 of ETB 20,182,607) of the value reimbursed made from the SOE and the respective support documents revealed that items of expenditure selected were paid in accordance with the GOE financial regulations and financing agreement and are eligible for claim from IFAD. Whereas the overall quality of the WA and the related SOE supporting documents were acceptable to IFAD, there is need to improve attendance lists; filing by having a complete set of documents supporting a transaction at one location – RPCMU and FPCMU as opposed to having incomplete documents at either site and to create space for PASIDP II files by archiving phase I documents. Oromia and SNNPR RPCMUs are most affected in terms of space to accommodate both staff and programme files.
56. **Counterpart funds.** Under PASIDP II, GOE will finance taxes and contribute to salaries and operating costs in the retroactive financing period. As of 31 May 2017, the Programme recorded ETB 1.61 million (USD 70,914) as counterpart contribution out USD 7.12 million in the first 18 months targets, this represents 1% performance. However, this is due to the present level of implementation, and given that GOE is financing taxes whenever they are due, this is acceptable at the current stage of implementation. **Counterpart financing is rated moderately satisfactory.**
57. At appraisal, the beneficiaries were expected to contribute USD 12.77 million towards civil works and material inputs. As of 31 May 2017, no contribution had been realized as activities implemented did not require contribution from the beneficiaries. The mission however noted

that whereas beneficiary contribution is anticipated, there is no standard beneficiary contribution tracking tool. This may lead to over or under reporting of the contribution. **It has been agreed that the RPCMU develop a standard beneficiary contribution tracking tool/form and distribute it to all RPCMUs to facilitate reporting of beneficiary contribution.**

58. **Compliance with loan covenants.** The Programme has been generally implemented in compliance with loan covenants; except in cases of delays in implementing an accounting software, timeliness and content of periodical financial and other reports and development of gender mainstreaming guidelines. This aspect has been rated moderately satisfactory.
59. **Procurement.** The programme has prepared a first 18 months procurement plan in line with the AWPB and a number of procurements have been initiated. The plan will require up-date of actual procurement actions in the course of the plan period to review performance and address emerging challenges. Contract register and individual contract management forms have been developed and updated. The mission however notes that slow procurement processes and poor contract management that characterised PASIDP I still persist. The recruitment of an experienced Procurement Officer to help address some of these challenges and back-stop RPCMUs has not been concluded as an earlier identified candidate was rated unsuitable for the position by IFAD. The mission rated procurement aspects **moderately satisfactory**. It was agreed that **the FPCMU fast track the recruitment of a Programme Procurement Officer.**
60. **Audit.** The first statutory audit for PASIDP II is not yet due. The Programme will be audited by the Federal Auditor General (who delegated the responsibility to Audit Services Corporation). The mission notes that whereas the financing agreement entered into force in December 2016, implementation started earlier during the retroactive financing period. Thus, by the end of the fiscal year 2016/17, twelve months of implementation will have lapsed. Accordingly, the programme will prepare for the first year audit to take place as at 7 July, 2017. The audit Terms of Reference (TOR) will be finalised and submitted to IFAD for a No Objection and shared with the auditor. **It has been agreed that the FPCMU submit the TOR for the external audit together with key programme documents with the auditor as the draft financial statements are being finalised.**

Agreed action	Responsibility	Agreed date
Fast track filling of vacant financial management and Procurement positions	NPC	31.07.2017
Implement an accounting software in accordance with a comprehensive and consistent chart of accounts	NPC/Senior Programme Accountant (SPA)	30.09.2017
Monitor the budget and revise it to realistic targets	NPC/M&E/SPA	31.09.2017
Reconcile a designated account on a monthly basis	SPA	On going
Improve filling both at FPCMU and RPCMUs	NPC/SPA	30.08.2017
Develop a Standard Beneficiary contribution form	M & E/SPA	31.07.2017
Share approved audit TOR and key programme documents with the auditors	NPC/SPA	30.06.2017
Submit to IFAD interim financial reports	NPC/SPA	Every six months

## F. Sustainability

61. The PASIDP II Project Development Objective (PDO) is **to provide improved income and food security for rural households targeted by the program on a sustainable basis.** These outcomes of improved income and food security can only be achieved if the investments irrigation schemes and surrounding contiguous watersheds are made in ways that enable technically and financially viable operations by the targeted communities. It is still too early in the program implementation processes to verify that these outcomes can be assured. However,

the agreements reached during the mission, if implemented as intended, provide a sound basis for the expectation that the expected benefits will prove to be sustainable.

62. **ASAP and climate resilience.** PASIDP II includes an ASAP grant specifically aimed to assist smallholder farmers in adapting to climate change. Most of the ASAP-funded activities are currently in preparation phase, primarily technical assistance activities including potential service delivery by CGIAR centres. These capacity building and process improvements are expected to yield results in the coming years as new schemes are being constructed and farmers are adopting more water-efficient practices. Watershed management activities are already providing communities with stronger climate buffers, but will need continued attention to ensure also their financial and economic sustainability. The strong attention paid by the Programme to social and environmental safeguards is another strong impetus to improve the climate resilience of investments and, in the end, farming communities.

## G. Other

63. **Irrigation Water Users Associations (IWUAs).** IWUAs are mandated by a new Federal Proclamation (2014), recognizing these associations as a legal entity for the operation and management of irrigation systems. While the regions of Tigray and Amhara have endorsed the federal proclamation at regional level, the Oromia and SNNPR have not yet finalized this process. In SNNPR the IWUAs were organized by the cooperative promotion office and recently, it was agreed to organize them under the mandate of the irrigation office. This policy gap will be tackled by the RPCMUs with the support by IFAD under a separate grant.

Agreed action	Responsibility	Agreed date
Organize awareness creation workshop to stakeholders from Oromia/ SNNPR.	Oromia and SNNPR PMCU	September, 2017
Develop action plan for the respective regions.	Oromia and SNNPR PMCU	October, 2017

## H. Conclusion

64. A good start has been made in the physical aspects of implementation of the new program, building on the preparations made during PASIDP I. However, as yet, most of the innovations proposed in program design and outlined in the PIM have not been implemented. The mission notes however that there is strong commitment from the Government and all stakeholders for these innovative processes to be fully implemented in the future, thus improving the prospects for sustainable delivery of expected outcomes to the targeted rural communities.
65. IFAD and the Government of the Federal Democratic Republic of Ethiopia endorse the findings of the supervision mission.

## Appendix 1: Summary of project status and ratings

### Basic Facts

Country	Ethiopia	Project ID	2000001134	Loan/DSF/Grant/ASAP FI No.	2000001636, 2000001637, 2000001638
Project	Participatory Small-scale Irrigation Development Programme II			Top-up Loan/DSF/Grant/ASAP FI No.	
Date of Update	14-Jun-2017				
Supervising Inst.	IFAD				
No. of Supervisions	0	No. of Implementation Support/Follow-up missions	0		
Last Supervision		Last Implementation Support/Follow-up mission			

USD million Disb. rate %						
Approval	22-Sep-2016			Total financing	145.29	
Agreement	02-Dec-2016	Effectiveness lag	4.8	IFAD Total	114.50	
Entry into force	13-Feb-2017	PAR value	-----	IFAD loan	102.00	10
First disbursement	19-Apr-2017			DSF grant		
MTR		Last amendment		IFAD grant	1.50	7
Original completion	30-Sep-2021	Last audit		ASAP grant	11.00	8
Current completion	30-Sep-2021			Domestic Total	30.80	
Current closing	31-Mar-2022			Beneficiaries	12.07	0
No. of extensions	0			National Govern	18.72	0
				External Cofinancing Total		

### Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management		4	1. Quality of project management		4
2. Acceptable disbursement rate		5	2. Performance of M&E		3
3. Counterpart funds		4	3. Coherence between AWPB & implementation		4
4. Compliance with financing covenants		4	4. Gender focus		4
5. Compliance with procurement		4	5. Poverty focus		4
6. Quality and timeliness of audits		4	6. Effectiveness of targeting approach		4
			7. Innovation and learning		3
			8. Climate and environment focus		4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current

1. Component A: investment in small-scale irrigation	4	1. Institution building (organizations, etc.)	4
2. Component B: Investment in capacity for sustainability	3	2. Empowerment	4
		3. Quality of beneficiary participation	4
		4. Responsiveness of service providers	
		5. Exit strategy (readiness and quality)	
		6. Potential for scaling up and replication	5

#### B.5 Justification of ratings

**Fiduciary aspects:** There are still delays in the implementation of the accounting software and in preparing retroactive financial reports and interim financial reports. Staffing at regional level is not complete yet. Although the AWPB is very ambitious, the main drivers for satisfactory disbursement have been the advances. Project implementation progress: Key staff positions still need to be completed and amendments need to be made to the M&E manual to ensure adequate data collection. The AWPB is very ambitious and perhaps more planning should be made to ensure realistic targets. The programme stills need to provide capacity building training to change the implementation mind-set change from PASIDP I to PASIDP II. It also needs to ensure a genuine participatory process, where the farmers are encouraged to participate from design of the schemes to the final handover. **Outputs and outcomes:** Despite significant progress, the mission has reservations regarding quality assurance for studies and designs, as well as varying levels of involvement of IWUAs in the process, both of which are significant for the sustainability of the schemes. Adequate business plans and market linkages should be developed to achieve the programme's development objective. **Sustainability:** Although the mission acknowledges the farmers correctly expect that the use of schemes will result in improved food security and incomes for their families, the programme needs to increase its efforts to ensure genuine participation of farmers, who still need more training for the operation and management of the schemes.

### Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets		4
C.2 Food security		4
C.3 Quality of natural asset improvement and climate resilience		4
C.4 Overall <b>implementation progress</b> (Sections B1 and B2)		4

#### Rationale for implementation progress rating

By the time of the mission, the number of schemes that had been studied and designed prior to the loan effectiveness, using retroactive financing, far exceeds the expectations of the AWPB; which did not envisage any schemes being completed until early 2018. The mission noted the strong organisational and social cohesion of farmers as the operators of newly constructed schemes. However, programme implementation has so far focused on the construction of irrigation schemes, while attention to market linkages, access to financial services, agricultural support services, watershed management activities and linkages among the sub-components varied across the regions.

C.5 Likelihood of achieving the development objectives (section B3 and B4)	4
--	---

#### Rationale for development objectives rating

Overall, the programme appears to be implemented as a continuation of PASIDP I, and not as a new programme containing numerous innovations required to respond to the lessons of the previous programme. There is scope to strengthen the present arrangements for quality assurance of feasibility studies and designs and enhance the participation by the prospective users in the study, design, bidding and construction process. Furthermore, the mission acknowledged the need for capacity building for business planning and commercial linkages to increase the achievement of development objectives.

C.6 <b>Risks</b> Short description of major risks for each section and their impact on achievement of development objectives and sustainability	
Fiduciary aspects	Key staff needs to be recruited, accounting software implemented and retroactive financial reports and interim financial reports prepared.
Project implementation progress	Key staff needs to be recruited and the AWPB should be revised.
Outputs and outcomes	Scheme quality assurance and farmer's participation need to be enhanced and business plans developed for the development of profitable schemes and the establishment of market linkages.
Sustainability	The project needs to ensure greater farmers' participation during schemes' design and construction, and provide capacity for farmers on the operation and maintenance of the schemes.

## Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
As briefed in the AM, there has been limitation in implementation as stipulated on the design document, particularly component B.	Amend and update the PIM as per agreed actions in AM and technical annexes, and direct recommended changes in the PIM document itself and submit to IFAD ICO for no-objection	15 July 2017	
FPCMU and RPCMU required staffs are not filled yet and is hindering implementation progress	Closely monitor and prioritize the finalization of the recruitment processes to ensure that all positions are filled at FPCMU and RPCMU	31 July 2017	
Baseline study has been delayed.	Finalize recruitment of consultant for baseline study and prepare timeline for the baseline study undertaking	31 July 2017	



## Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Narrative Summary (Results Hierarchy)	Key Performance Indicators			Means of Verification			Assumptions (A)/ Risks (R)
	Indicators <sup>2</sup>	Baseline	End Target <sup>3</sup>	Source	Frequency	Responsibility	
<b>Goal:</b> Increased prosperity and improved resilience to shocks in food insecure areas of Ethiopia	▪ # of HH participating in the Programme graduated above the poverty line 3/4 years after schemes are operational	TBD <sup>4</sup>	TBD	Reference surveys	PY1, PY7	FPCMU, consulting firm	
	▪ % increase in value of assets of participating households	TBD	TBD	Reference surveys	PY1, PY7	FPCMU, consulting firm	
	▪ % reduction in prevalence of child malnutrition	TBD	TBD	Reference surveys	PY1, PY7	FPCMU, consulting firm	
	▪ Number of smallholder household members supported in coping with the effects of climate change (ASAP indicator) <sup>5</sup>	0	480,000	Reference surveys	PY1, PY3, PY7	FPCMU, consulting firm	
<b>Development Objective:</b> Improved income and food security for rural households on a sustainable basis	▪ # of direct beneficiary households	0	108,750	Progress reports	Annual	FPCMU, consulting firm	Effective agribusiness linkages Efficient start-up (A)
	▪ Increase in household income from project support			Reference surveys	PY1, PY3, PY7	FPCMU, consulting firm	
	Farm model A – 1 ha (ETB)	5,210	18,772				
	Farm model B – 1 ha (ETB)	7,833	29,072				
	Farm model C – 1 ha (ETB)	5,499	19,583				

<sup>1</sup> If possible, indicators are disaggregated by gender of household head, gender and age.

<sup>2</sup> The impact survey of PASIDP (IFAD, 2016) was used to determine the end targets.

<sup>3</sup> TBD= To Be Determined after baseline survey

<sup>4</sup> Measured by household resilience index. To be determined at the beginning of the programme with the technical assistance of IFAD-ECD team



Narrative Summary (Results Hierarchy)	Key Performance Indicators			Means of Verification			Assumptions (A)/ Risks (R)
	Indicators <sup>2</sup>	Baseline	End Target <sup>3</sup>	Source	Frequency	Responsibility	
	Farm model D – 1 ha (ETB)	6,298	29,84				
	Farm model E – 1 ha (ETB)	5,295	9,665				
	Farm model F – 1 ha (ETB)	9,108	15,073				
Component 1: Investments in Small-Scale Irrigation							
Outcome 1: Farmers have sustainable access to irrigation schemes	▪ # of farmers that have access to irrigation schemes	0	46,250	Surveys and specialized studies	PY1, PY3, PY7	RPCMU, implementers	Ownership of beneficiaries in irrigation schemes (A) No elite capture (R)
Output 1.1. Selection of irrigation schemes for investment	▪ # of feasibility studies approved	0	18,400 ha	Progress report	Quarterly	RPCMU, implementers	
	▪ 100% of IWUAs operate sustainably	TBD	150 IWUAs	Progress report	Quarterly	RPCMU, implementers	
Output 1.2 Irrigation schemes developed or upgraded on 15,000 ha	▪ # of ha farmland under operational irrigation	TBD	18,400 ha	Survey	PY1, PY3, PY7	RPCMU, implementers	
	▪ Value of Infrastructure [USD] protected from extreme weather events (ASAP Indicator)	0	80 Million	Progress Report	Annual	FPCMU	
Component B: Investment in capacity for sustainable agriculture							
Outcome 2: Farmers have increased market-oriented skills and capacity for sustainable agriculture.	▪ 70,000 households achieve at least 50% increase in farm income	Maize: 1.5MT/ha Wheat: 1.5 MT/ha Onion: 4 MT/ha Chickpea:0.7MT/ha	Maize: 3.0 MT/ha Wheat: 2.7 MT/ha Onion: 10 MT/ha Chickpea: 1.8 MT/ha	Surveys and specialized studies	PY1, PY3, PY7	FPCMU and consulting firm	Access to financial services (A) Sufficient capacity of public services (A) Climate change measures adopted (A)
Output 2.1 Improved access to appropriate inputs, access to agricultural and financial services for smallholder producers	▪ # of functional cooperatives that provide at least 3 services to clients	TBD	100	Progress report	Quarterly	RPCMU, implementers	
	▪ # of households with strengthened financial literacy	TBD	50,000	Progress report	Quarterly	RPCMU, implementers	

Narrative Summary (Results Hierarchy)	Key Performance Indicators			Means of Verification			Assumptions (A)/ Risks (R)
	Indicators <sup>2</sup>	Baseline	End Target <sup>3</sup>	Source	Frequency	Responsibility	
	▪ In and off farm employment creation	TBD	15,000	Progress report	Quarterly	RPCMU, implementers	
<b>Output 2.2</b> Improved productivity in intervention areas	▪ # of people trained in sustainable production practices and technologies, including NRM (ASAP Indicator)	TBD	15,000	Progress report	Quarterly	RPCMU, implementers	
	▪ Households in vulnerable areas with increased water availability for agricultural production (ASAP Indicator)	0	80,000 households	Survey	PY1, PY3, PY7	RPCMU, implementers	
<b>Output 2.3</b> Improved and sustainable watershed management	▪ # of ha under improved watershed management (ASAP indicator)	0 ha	60,000 ha	Progress report	Quarterly	RPCMU, implementers	
	▪ Extent of land with rehabilitated or restored ecosystem services (ASAP Indicator)	0	40%	LDSF <sup>6</sup>	PY1, PY3, PY7	RPCMU, implementers	
	▪ Crop yield stability over seasons <sup>7</sup>	TBD	70%	Progress report	PY1, PY3, PY7	RPCMU, implementers	

<sup>5</sup> Land Degradation Surveillance Framework (LDSF) for monitoring land and environmental health surveillance,

<sup>6</sup> Would be used in areas where yield and rainfall data is regularly recorded



## Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Date	Whom	Progress
Project Implementation	1. Amend and update the PIM as per agreed actions in AM and technical annexes, and direct recommended changes in the PIM document itself and submit to IFAD ICO for no-objection	15 July 2017	FPCMU	
	2. Update PIM to ensure farmers' effective participation in scheme design	15 July 2017	FPCMU, Steering Committee	
	3. Recruit Technical Assistance for business planning & commercial linkage	30 August 2017	FPCMU, RPCMUs	
	4. Recruit a competent service provider for support to capacitating IWUAs and strengthening participatory processes	31 August 2017	FPCMU, RPCMUs	
	5. Procure consultant(s) to carry out comprehensive QA for scheme design, including agronomic & financial analysis	15 August 2017	FPCMU	
	6. Recruit a consultant for training and mentoring in spate irrigation	15 July 2017	FPCMU	
	7. Closely monitor and prioritize the finalization of the recruitment processes to ensure that all positions are filled at FPCMU and RPCMU	31 July 2017	FPCMU, RPCMU	
	8. Revise the M&E manual to include templates for data collection and analysis and include IFAD's RIMS indicators	31 July 2017	FPCMU	
	9. Finalize recruitment of consultant for Baseline study and prepare timeline for the baseline study undertaking	31 July 2017	FPCMU	
	10. Train Safeguards Specialists at Federal and Regional level to be carried out as soon as Federal PMU Safeguards Specialists have been recruited.	31 August 2017	IFAD safeguard specialist	
Outputs	11. Update PIM to ensure participation of EPLAU at woreda level	15 July 2017	FPCMU	
	12. Form and deployment of a Programme Agribusiness Facilitation Team (PAFT) at the Federal level	15 August 2017	FPCMU	
	13. Form and deployment of a Regional Agribusiness Facilitation Team (RAFT) at the Regional level	15 August 2017	RPCMU	
	14. Implement the regional market opportunities study by recruiting the appropriate specialist consultant and working closely with them.	30 Sept 2017	FPCMU, RPCMUs	
	15. Improve the liquidity position of RuSACCOs through provision of reflow funds.	31 August 2017	MoANR, MoFEC, DBE	
	16. Include in the PIM a minimum environmental flow requirement of 10% of the mean annual flow, or as stipulated in Federal/Regional regulations; and integrate into QA process	15 July 2017	FPCMU	
	17. Introduce compulsory clause for IWUA by-laws regarding use of PPE when handling agrochemicals	15 July 2017	RPCMU	
	18. Introduce simple and realistic business plans for IGAs.	31 July 2017	RPCMU	
	19. Organize technical workshop on watershed management	30 Sept 2017	FPCMU	

Action Area	Action Agreed	Date	Whom	Progress
Fiduciary Aspects	20. Fast track filling of vacant financial management and Procurement positions	31 July 2017	FPCMU	
	21. Implement an accounting software in accordance with a comprehensive and consistent chart of accounts	30 Sept 2017	FPCMU	
	22. Monitor the budget and revise it to realistic targets	30 Sept 2017	FPCMU	
	23. Improve filling both at FPCMU and RPCMUs	30 August 2017	FPCMU	
	24. Develop a Standard Beneficiary contribution form	31 July 2017	FPCMU	
	25. Share approved audit TOR and key programme documents with the auditors	30 June 2017	FPCMU	

## Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Component/ Sub-component or Output		Indicator	Unit	Period: July to December 2016 (Retroactive financing)			Cumulative Actual	Appraisal Target	%
				AWP&B	Actual	%			
Component A:									
	Investments in Small-Scale Irrigation	1. Community scheme study and design Review	No.	21	24	114%			
		2. New scheme study and design	No.	13	7	54%			
		3. Finalize ongoing schemes started in PASIDP I	No.	12	4	33%			
Component B:									
Investment in capacity for sustainable agriculture									
	Subcomponent B. 1: Strengthening of farmers' cooperatives, the development of agribusiness linkages and access to financial services.								
	Subcomponent B.2 Improvement of crop husbandry practices mainly through farmers' research groups, extension support and the availability of improved seed. The Subcomponent will also make provision for gender-activities and promotion of nutrition-sensitive agriculture.								
	Subcomponent B.3 will support improved watershed management								
Component 3									
	Programme Management, Monitoring & Evaluation and Knowledge Management	1 Baseline study conducted	No.	1	0	0%			
		2. PIM prepared	No.	1	1	100% <sup>8</sup>			
		3. M&E manual prepared	No.	1	1	100% <sup>9</sup>			

<sup>7</sup> The draft PIM was prepared and will be updated based on the feedback provided by the mission members

<sup>8</sup> The draft M&E manual was prepared and will be updated based on the feedback provided by the mission Members.

## Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

**Table 5A: Financial Performance by Financier (as at 31 May 2017)\*\***

Financier	Appraisal (USD '000)	Disbursements (USD '000)	% Disbursed
IFAD loan	102,000	9,919	9.7%
IFAD grant	1,500	100	6.7%
ASAP grant	11,000	900	8.2%
GOE	18,722	70	0.4%
Beneficiaries	12,072	0	0.0%
<b>Total</b>	<b>145,294</b>	<b>10,989</b>	<b>7.6%</b>

**Table5B: Financial Performance by Financier by Component as at 31 May 2017 (USD'000)\*\***

Component	IFAD loan and grant			ASAP grant			Government			Beneficiaries			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
<b>1. Investment in Small-Scale Irrigation Infrastructure</b>	<b>83,226</b>	<b>415</b>	<b>0.4%</b>	<b>1,288</b>	<b>-</b>	<b>0%</b>	<b>15,523</b>	<b>70</b>	<b>0.4%</b>	<b>4,452</b>	<b>-</b>	<b>0%</b>	<b>104,489</b>	<b>485</b>	<b>0.5%</b>
1.1 Irrigation Scheme Participatory Planning and Preparation	5,711	-	0%	288	-	0%	893	-	0%	-	-	-	6,952	-	0%
1.2 Small-Scale Irrigation Infrastructure Development	77,655	415	0.5%	1,000	-	-	14,631	70	0.5%	4,452	-	0%	97,537	485	0.5%
<b>2. Investment for Capacity in Sustainable Agriculture</b>	<b>11,571</b>	<b>-</b>	<b>0%</b>	<b>8,516</b>	<b>-</b>	<b>0%</b>	<b>2,108</b>	<b>-</b>	<b>0%</b>	<b>7,621</b>	<b>-</b>	<b>0%</b>	<b>29,815</b>	<b>-</b>	<b>0%</b>
2.1 Agribusiness Linkages & Market Access	2,445	-	0%	-	-	-	383	-	0%	-	-	-	2,828	-	0%
2.2 Capacity Building and Empowerment of Smallholder Farmers	1,260	-	0%	5,625	-	0%	1,215	-	0%	-	-	-	8,100	-	0%
2.3 Watershed Management	7,866	-	0%	2,891	-	0%	510	-	0%	7,621	-	0%	18,887	-	0%
<b>3. Programme Management</b>	<b>8,703</b>	<b>504</b>	<b>6%</b>	<b>1,196</b>	<b>-</b>	<b>0%</b>	<b>1,091</b>	<b>-</b>	<b>0%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,990</b>	<b>504</b>	<b>4.6%</b>
3.1 Learning and Knowledge Management	996	-	0%	672	-	0%	294	-	0%	-	-	-	1,962	-	0%
3.2 Programme Management, M & E	7,706	504	6.5%	524	-	0%	797	-	0%	-	-	-	9,028	504	5.6%
<b>TOTAL</b>	<b>103,500</b>	<b>919</b>	<b>9%</b>	<b>11,000</b>	<b>-</b>	<b>0%</b>	<b>18,722</b>	<b>70</b>	<b>0.3%</b>	<b>12,072</b>	<b>-</b>	<b>0%</b>	<b>145,294</b>	<b>989</b>	<b>0.7%</b>

\*\* Actual expenditure in table 5A differs from expenditure in table 5B. This is because 5A represents funds made available while 5B represents funds that have actually been spent.

**Table 5C(i): IFAD loan disbursements (SDR, as at 31 May 2017)**

	Category Description	Allocated	Disbursed	WA 03 and 04 in pipeline	% disbursed	Available Balance	Per cent disbursed
I	Training	2,700,000.00	125,045.14	0.00	4.6%	2,574,954.86	
II	Works	50,600,000.00	290,772.37	3,183,839.38	6.9%	47,125,388.25	
III	Consultancies	2,550,000.00	0.00	0.00	0.0%	2,550,000.00	
IV	Goods, Services and Inputs	6,050,000.00	37,088.11	0.00	0.6%	6,012,911.89	
V	Salaries and Allowances	2,300,000.00	154,768.20	0.00	6.7%	2,145,231.80	
VI	Operating Costs	1,550,000.00	63,332.23	0.00	4.1%	1,486,667.77	
270001	Authorised Allocation	0.00	6,594,131.22	0.00	0.0%	(6,594,131.22)	
290001	Unallocated	7,200,000.00	0.00	0.00	0.0%	7,200,000.00	
	<b>TOTAL</b>	<b>72,950,000.00</b>	<b>7,265,137.27</b>	<b>3,183,839.38</b>	<b>14.3%</b>	<b>62,500,987.35</b>	

Disbursed amount include WA number 2 that has been resubmitted.

**Table 5c (ii): ASAP Grant 2000001636-ET Status of Funds (SDR, as at 31 May 2017)**

	Category Description	Allocated	Disbursed	WA # in pipeline	% disbursed	Available Balance
I	Training	4,170,000.00	0.00	0.00	0.0%	4,170,000.00
II	Works	650,000.00	0.00	0.00	0.0%	650,000.00
III	Consultancies	1,280,000.00	0.00	0.00	0.0%	1,280,000.00
IV	Goods, Services and Inputs	710,000.00	0.00	0.00	0.0%	710,000.00
V	Salaries and Allowances	290,000.00	0.00	0.00	0.0%	290,000.00
VI	Operating Costs	0.00	0.00	0.00	0.0%	0.00
270001	Authorised Allocation	0.00	659,413.12	0.00	0.0%	(659,413.12)
290001	Unallocated	770,000.00	0.00	0.00	0.0%	770,000.00
	<b>TOTAL</b>	<b>7,870,000.00</b>	<b>659,413.12</b>	<b>0.00</b>	<b>0.0%</b>	<b>7,210,586.88</b>

**Table 5c (iii): IFAD grant 2000001637-ET Status of Funds (SDR, as at 31 May 2017)**

	Category Description	Allocated	Disbursed	WA # in pipeline	% disbursed	Available Balance
III	Consultancies	970,000.00	0.00	0.00	0.0%	970,000.00
270001	Authorised Allocation	0.00	73,268.12	0.00	0.0%	(73,268.12)
290001	Unallocated	110,000.00	0.00	0.00	0.0%	110,000.00
	<b>TOTAL</b>	<b>1,080,000.00</b>	<b>73,268.12</b>	<b>0.00</b>	<b>%</b>	<b>1,006,731.88</b>





## Appendix 6: Compliance with legal covenants: Status of implementation

Financing Agreement:	Covenant	Compliance target date	Remarks
<b>Section E.2 (a)</b>	The Programme Coordination and Management Unit at Federal and Regional level duly established and key positions filled with personnel acceptable to IFAD.	Prior to disbursement	Complied
<b>Section E.2 (b)</b>	The Borrower/Recipient shall have established a National Programme Steering Committee (NPSC).	Prior to disbursement	Complied
<b>Section E.2 (c)</b>	Draft PIM in the form and substance satisfactory to the Fund	Prior to disbursement	Complied
<b>Schedule 3. Para 1, Gender</b>	Develop gender mainstreaming guidelines for the programme	During implementation	Not yet complied
<b>Schedule 3 Para 2, SECAP</b>	Ensure that the ESMF and RAF as required by IFAD's SECAP have been adopted	Throughout implementation	On -going
<b>Schedule 3 Para 3, Implementation</b>	Programme will be implemented in accordance with IFAD policies, strategies and procedures	Throughout implementation	On -going
<b>Schedule 3 Para 4, Environmental audit</b>	The development of measures to mitigate social and environment impacts and implementation will be reported upon annually and the report will be subject to an independent audit that will be submitted to IFAD and NPSC	Annually	On- going
<b>Schedule 3 Para 5, Accounting Software</b>	Accounting software duly implemented in accordance with a comprehensive chart of accounts satisfactory to IFAD	First year of implementation	Not yet complied
<b>Schedule 3 Para 6, Programme Financial reporting</b>	Programme financial reporting shall cover category of expenditure, components and financier and shall be prepared on modified cash basis		Not yet complied
<b>GC: Article 7. S7.01 (b) AWPB</b>	The LPA shall draft Programme AWPB for each Programme based, to the extent appropriate.	30 April, each year	Complied/on-going
<b>GC: Article 7. S7.05. Procurement</b>	Procurement of goods, works and services in accordance with the provisions of the GOE regulations, to the extent such are consistent with the IFAD Procurement Guidelines.	During implementation	On- going
<b>GC:S. 7.8 (a) Insurance</b>	All goods and buildings used in the Programme against such risks.	During implementation	On- going
<b>GC: Article 7 S.7.11</b>	Appoint National Programme Coordinator and all other key Programme personnel in the manner specified in the FA.	By Programme start up	Complied
<b>GC: Article 8 S 8.3 (a)</b>	Furnish to the Fund periodic progress reports in such form and substance as required		Not yet complied /On- going
<b>GC: Article 7Section 8.3 (b)</b>	Jointly carry out a review of Programme implementation no later than the midpoint of	2020	Not yet due

<b>Financing Agreement:</b>	<b>Covenant</b>	<b>Compliance target date</b>	<b>Remarks</b>
<b>MTR</b>	the Programme Implementation		
<b>GC: Article 7Article IX Financial Reporting Section 9.2</b>	Deliver to the Fund detailed financial statements of the operations, resources and expenditures related to the Programme for each Fiscal Year prepared in accordance with standards and procedures acceptable to the Fund	31 October, each year	Not yet due
<b>GC: Article 7Section 9.03 Audit</b>	Each Fiscal Year, have the accounts relating to the Programme audited in accordance with auditing standards acceptable to the Fund and the Fund's <i>Guidelines on Programme Audits (for Borrowers' Use)</i> by independent auditors acceptable to the Fund;	07 January, each year	Not yet due

## **Appendix 7: Knowledge management: Learning and Innovation**

### **Learning**

---

At design, PASIDP II acknowledged the need for the development of a comprehensive Learning and Knowledge Management (L&KM) Strategy during the programme's first year in order to provide the basis for the systematic compilation and dissemination of knowledge internally and externally, and ensuring the implementation of the lessons from the previous phase. The AWPB shows that PASIDP II has taken a proactive role in this regard by scheduling the development of the L&KM Strategy during the first year.

It is important that the TOR for the strategy highlights the importance of engaging with the programme's partnering institutions to optimize knowledge building and sharing, considering that some of these institutions can provide international experience. Although the M&E Guideline Manual is still under review, it should be considered while preparing the L&KM Strategy as it has already identified knowledge management activities and responsible stakeholders. More concrete deliverables and timelines will be defined by the Strategy, which should also align with the M&E Guideline Manual in order to ensure that adequate data collection systems are in place. Once the L&KM Strategy is prepared, the ICO will review it and provide feedback to the Federal PCMU.

---

### **Innovation**

---

The programme appears to be being implemented with the same mind-set as its previous phase, without adapting the numerous innovations that respond to the lessons of the previous programme. However, it has to be considered that some of the schemes visited were initiated under PASIDP I, where some innovative aspects of PASIDP II such as mainstreaming farmers' participation, business planning and market linkages were rather weak. In order to address these gaps, the Federal and Regional PCMU should operationalize the mission's agreed actions, ensuring that internal lines of communication are properly monitored in order to take timely action to the issues and challenges that might arise throughout the programme.

---

## Annex I Financial Management Assessment & Summary of Project Risk Assessment

### a) Financial Management Assessment at Supervision – Guidance Questionnaire

<b>Country:</b> Ethiopia	<b>IFAD Loan 2000001638/IFAD Grant 2000001637 and ASAP Grant 2000001636</b>
<b>Project Name:</b>	<b>PASIDP II</b>
<b>Executing Agency</b>	<b>Ministry of Agriculture and Natural Resources</b>
<b>Country Director</b>	<b>Ulaq Demirag</b>
<b>Reviewing Finance Officer/FMS:</b>	Richard Batamanye
<b>Date of this review:</b>	<b>02/06/2017</b>

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
• Inherent Risks			
• Control Risks			
<b>1. ORGANISATION AND STAFFING</b>			
a.	Adequacy of organizational structure to meet functional needs of the project.	H	Most positions have been filled. The position of Finance Manager and Procurement Officer and Assistant Accountant at RPCMU are still vacant. The remaining positions will be filled when the on-going recruitment process is completed.
b.	Availability of clear job description for key project positions, including fiduciary positions.	M	Adopted as is in the PIM, o evidence they are distributed to respective individual staff
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project	M	At FPCMU, the two FM staff are adequate to facilitate segregation duties. However, at RPCMUs in Oromia, Amhara and Tigray there is no segregation of duties as the Assistant Accountants have not been recruited
d.	Availability and adequacy of operating manuals and guidelines for staff.	M	Draft PIM has been developed, this will require finalization and approval by NPSC
e.	Existence of a performance based evaluation system in place and timely completion of performance evaluation for all staff.	H	There is no documented performance evaluation system
f.	Adequacy of health insurance coverage for all staff (where applicable).	N/A	
g.	Timely payment of social security fees (where applicable).	L	There is provision for provident fund which is deducted and paid on a monthly basis
h.	Staff adequately informed about IFAD's national and anti-corruption policy and relevant contact details.	M	Done at start up
<b>2. BUDGETING</b>			
a.	Timely preparation and approval of AWPB.	L	AWPB for the 2017/18 was completed and IFAD No Objection issued on 10/03/2017
b.	AWPB in line with expenditure categories in Financing Agreement Schedule 2.	L	Yes
c.	Financing sources and implementing agencies for each category in the AWPB are identified.	L	Well reflected
d.	Linkage between AWPB and Procurement plan are identified (for cost estimate and activities). Check assumptions to support cost estimates. Test check high value items.	H	Total budget for first 18 months is USD 57.11 million. USD 44.73 being IFAD loan, grant and ASAP grant. This is appears to be high.
<b>3. FUNDS FLOW AND DISBURSEMENTS</b>			

a.	Timeliness of funds disbursed by different sources (and co-financiers funding if applicable).	L	Funding has been timely
b.	Timeliness of counterpart funds disbursed.	L	Counterpart is paying taxes whenever they are due
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	L	No challenges noted
d.	Efficiency of the funding channels for credit lines. Timeliness and traceability of funds flows, if applicable.	N/A	
e.	Special Account(s)/Dedicated Account(s) Management, Disbursements.		
	• Adequacy of the authorized allocation to ensure a smooth flow of funds	L	Authorized allocation of USD 10,000,000 is adequate
	• Appropriateness of disbursement methods used	L	Reimbursement, Direct payments and advance withdraw have been used
	• Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments. (refer to Appendix IV and complete, reflecting finding in rating).	H	For reviewed items, documentary evidence is adequate. There is need though to improve filing, to ensure that documentary evidence for a given transaction can be obtained at one location
	• Timely preparation and accuracy of Withdrawal Applications	L	The timing so far is very good with 4 WAs submitted within the first six months of entry into force.
	• Authorization of WA preparation.	L	Authorization is adequate, authorized signatories have been submitted and they cater for alternatives should a specific officer be out of office
	• Status on expenditures withdrawn from Special Account but not yet claimed for replenishment (old cases to be noted)	L	ETB 33,469,346.93/USD 1,468,332.65 was withdrawn during the months of April and May, 2017. ETB 32,898,869.84/USD 1,443,376.03 was transferred to RPCMUs while ETB 570,477.09/USD 25,028.61 was spent at FPCMU. The transferred amounts are yet to be utilized.
	• Regularity of Special Account(s) monitoring and monthly reconciliations signed by the project manager. Review and assess the reconciliations	H	The month of April and May have not been reconciled
	• Disbursement rate compared to the AWPB and whether satisfactory given the remaining implementation time. Provide comments as appropriate	L	Disbursement rate is satisfactory
	• Recovery of SA balances by loan closure	N/A	Not yet due
<b>INTERNAL CONTROLS</b>			
a.	Segregation of duties - are the following functional responsibilities performed by different units or persons: • authorization of a transaction • execution of a transaction • recording of the transaction; and • Custody of assets involved in the transaction.	H	Except for FPCMU and SNNPR RPCU where there are two Accountants, ensuring segregation of duties, Amhara, Tigray and Oromia RPCMUs have one Accountant each which is affecting segregation of duties.
b.	Clarity and adequacy of decision processes and sequence of events for control functions in project implementation reflected in the Financial Manual (or equivalent there-of).	M	There is a draft manual with the clarification done, but this is yet to be rolled out to the Regions
c.	Adherence to Financial Manual.	N/A	As above
d.	Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.	L	GOE is paying taxes while beneficiary contribution is in kind

e.	Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.	H	Contract management has been characterized with challenges including contractor failure, poor supervision and inadequate documentation
f.	Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.)	M	Internal controls based on GOE procedures
g.	Documentary evidence to confirm delivery and acceptance of contracted goods, works or services.	L	Adequate
h.	Physical controls over cash, documents and records. Adequacy of filing systems. Is the petty cash subject to monthly reconciliation as well as surprise checks; custody of cash box and control of keys.	L	Cash managed by MOANR cashier
i.	Adequacy of physical management of cash.	L	Adequate
j.	Timely payment to suppliers and consultants.	L	Timely
k.	Eligibility of expenditures with respect to Financing Agreements.	L	Reviewed expenditure is eligible
l.	Legality/eligibility of advances from project funds and timely justification for use there-of.	L	No abnormal cases noted
m.	Compliance with financial management covenants in the Financing Agreements and LTB.	M	Except for the implementation of accounting software and timely periodic financial reports by category, component and financier, the programme is generally being implemented in compliance with the FA and LTB
n.	Adequacy of up-to-date record keeping for fixed assets and inventories.	L	Adequate
o.	Adequacy of controls concerning project assets including: <ul style="list-style-type: none"> <li>• Vehicle and other assets management (are assets property tagged, is a physical inventory count done on a regular basis?)</li> <li>• Fuel management (do drivers maintain a log book?)</li> <li>• Travel authorisations (incl. DSA paid to staff)</li> </ul>	L	Adequate
p.	Adequacy of vehicles and assets insurance.	N/A	
q.	Workshops: <ul style="list-style-type: none"> <li>• Availability of list of participants</li> <li>• DSA paid to participants</li> <li>• Receipts for workshop expenditure</li> </ul>	M	Cases noted where attendance sheets were not titled and dated which makes it cumbersome to match with pay sheets
r.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management) / and other operational accounts – non-special account.	L	Adequate
s.	Banking arrangement and controls (reconciliation of bank statements with financial accounts).	M	Reconciliation of DA not done on a monthly basis
t.	Existence of a proper IT support unit in place.	M	IT services provided by MOANR
<b>5.</b>	<b>ACCOUNTING</b>		
a.	Basis of accounting (cash, accrual) and whether accounting standards are in line with IFAD's requirements (e.g. IFRS/IPSAS/IPSAS cash).	M	IPSAS
b.	Adequacy and reliability of accounting system, (is double entry accounting used, specify software used, is budget data entered into the accounting system, can the accounting system produce regular automated financial reports?).	H	Peachtree that is being used by the Programme is not coded to produce reports in the required format. A procurement of software has been initiated.
b.	Recordkeeping (including documentation and	H	At Oromia RPCMU, there is no filing space.

	filing/archiving)		The PASIDP 1 files have not been archived. At FPCMU filling for documents for RPCMUs payments processed at the HQ will also require improvement
c.	Fixed assets register maintained and reconciled (sample and physical check).	L	Done
d.	Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.	H	This will require improvement with the implementation of an accounting software
e.	Adequacy of chart of accounts for project accounting purposes	H	Inadequate
f.	Timeliness of recording transactions, regularity of performance and approval of reconciliations, controls on erroneous recordings.	H	Reconciliations of the designated account not done on a timely basis; take to be a WA requirement
g.	Appropriate/ adequate accounting and reporting of counterpart funds contributions (incl. tax and tax exemptions) as well as beneficiary contributions.	M	Beneficiary contribution has not yet been realized
<b>6. FINANCIAL REPORTING AND MONITORING</b>			
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	H	Financial reports by expenditure components have not been produced
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	H	For the retroactive financing period, the reports have not been timely
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	H	Not done, cannot be produced in the accounting software as it is not well coded and budget figures are not posted into the system
d.	Follow up of previous aide-memoirs fiduciary recommendations.	N/A	
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	L	Reasonable
<b>INTERNAL AUDIT</b>			
a.	Existence of Internal Audit arrangements.	M	Internal audit of the programme will be covered under the MOANR audit program
b.	Adequacy of internal audit arrangements (organization – staff capacity).	M	MOANR
c.	Adequacy of internal audit scope of work and quality of reports.	H	Not assessed as reporting is in Amharic
d.	Assessment of matters raised in audit reports.	H	As above
<b>EXTERNAL AUDIT</b>			
a.	Adequacy of scope and ToR.	L	Previously developed TORs for audit of PASIDP I and improved at design of PASIDP II are adequate
b.	Adherence to ToR.	M	The auditor has been omitting the statement of receipts and expenditure by component even when provided in the draft financial statements
c.	Timeliness of audit report.	L	Under PASIP I, the last audit report was submitted on time. First report for PASIDP II is not yet due
d.	Quality of audit.	N/A	As above
e.	Implementation of audit recommendations/agreed action plan in place to address these.	N/A	As above



**b) Summary of Project Fiduciary Risk Assessment at Supervision**  
**IFAD Loan 2000001638/IFAD Grant 2000001637 and ASAP Grant 2000001636**

**Implementing Agency: Ministry of Agriculture and Natural Resources**

	<b>Risk Assessment H/M/L</b>	<b>Proposed Mitigation</b>
<b>Inherent Risk</b>		<b>N/A</b>
<b>Control Risks</b>		
1. Organization and Staffing	H	Recruitment of Assistant Accountants at Oromia, Amhara and Tigray RPCMUs should be completed. At FPCMU, the National Programme Finance Manager and Procurement Officer should be recruited
2. Budgeting	M	AWPB was submitted on a timely basis but there is need to improve budget control by posting budget figures into the accounting system. Budget will also require revising to realistic figures
3. Funds flow & Disbursement Arrangements	M	Funds flow arrangements are adequate but bank accounts including the designated accounts should be reconciled on a monthly basis
4. Internal Controls	M	Segregation of duties at Oromia, Amhara and Tigray RPCMUs should quickly be addressed
5. Accounting	H	An accounting software, properly and consistently coded should be implemented
6. Financial Reporting and Monitoring	H	Interim financial reports should be semi - annual. Reports should reflect expenditure by category, by component and by financier
7. Internal Audit	M	MOANR will consider producing internal audit reports in English or at least translate the same with a view of meeting IFAD project internal audit requirements
8. External Audit	L	External audit report for the year 2016/17 expected on a timely basis. TORs and related project documents and information should be shared with auditors in advance
<b>Overall Project Fiduciary Risk</b>	<b>M</b>	
H=High, M=Medium, L= Low		

1.

2.

**Comments: The overall risk assessment is tending towards high, mainly due to delays in implementing accounting software coded in a manner satisfactory to IFAD; delays in financial reporting – including absence of statement of expenditure by component by financier; incomplete financial staffing structure and internal audit arrangements.**

## Annex II Technical Report on Fiduciary Aspect

1. **Financial management.** A financial management assessment of PASIDP II has returned a medium risk. The key issues are delays in implementation of accounting software which affects the quality and timeliness of reporting; delays in preparing retroactive financial reports and interim financial reports; and delays in the recruitment of a National Programme Finance Manager. The financial management personnel structure at Oromia, Amhara and Tigray is incomplete with the Regional Programme Accountant performing all accounting roles, leading to lack of segregation of duties. The mission rates the quality of financial management as **moderately satisfactory**. It was agreed that the RPCMU fast track the recruitment process for the vacant finance positions to have them filled as soon as possible.

**Table1. Summary of Project Fiduciary Risk Assessment at Supervision**

	Risk Assessment H/M/L	Proposed Mitigation
<b>Inherent Risk</b>		<b>N/A</b>
<b>Control Risks</b>		
1. Organization and Staffing	H	Recruitment of Assistant Accountants at Oromia, Amhara and Tigray RPCMUs should be completed. At FPCMU, the National Programme Finance Manager and Procurement Officer should be recruited
2. Budgeting	M	AWPB was submitted on a timely basis but there is need to improve budget control by posting budget figures into the accounting system. Budget will also require revising to realistic figures.
3. Funds flow & Disbursement Arrangements	M	Funds flow arrangements are adequate but bank accounts including the designated accounts should be reconciled on a monthly basis
4. Internal Controls	M	Segregation of duties at Oromia, Amhara and Tigray RPCMUs should quickly be addressed
5. Accounting	H	An accounting software, properly and consistently coded should be implemented
6. Financial Reporting and Monitoring	H	Interim financial reports should be semi - annual. Reports should reflect expenditure by category, by component and by financier
7. Internal Audit	M	MOANR will consider producing internal audit reports in English or at least translate the same with a view of meeting IFAD project internal audit requirements
8. External Audit	L	External audit report for the year 2016/17 expected on a timely basis. TORs and related project documents and information should be shared with auditors in advance
<b>Overall Project Fiduciary Risk</b>	<b>M</b>	
H=High, M=Medium, L= Low		

3.

4.

**Comments: The overall risk assessment is tending towards high, mainly due to delays in implementing accounting software coded in a manner satisfactory to IFAD; delays in financial reporting – including absence of statement of expenditure by component by financier; incomplete financial staffing structure and internal audit arrangements.**

2. **Financial Management Information System.** PASIDP II inherited Peachtree accounting software used under PASIDP I. At start up, it was proposed that the latest, licensed Peachtree (Sage 50) be procured from an authorised partner/representative. The Programme, with guidance from MOANR opted to open up the process for a procurement of the software. Whereas the mission is in agreement with the approach to competitively procure the same, it

emphasises the need to identify software capable of meeting the reporting requirements of PASIDP II and having an in-Country support. The mission noted that government's Integrated Budget Expenditure (IBEX) accounting system has not been sufficiently rolled out for use by the programme but remains an option for future use when it has been fully tested. **It was agreed that the FPCMU implement accounting software in accordance with a comprehensive and consistent chart of accounts at FPCMU and RPCMU satisfactory to IFAD not later than 30 September, 2017.**

3. **Budget Utilisation.** The first 18 months budget is USD 57.12 million. . Overall, this budget represents an ambitious 39% of the total programme budget at appraisal of USD 145.28 million. As of 31 May, 2017, expenditure of USD 0.92 million (45% of retroactive financing budget and 1.6% of the 18 months budget) was reported. Withdrawal applications (WAs) 3 and 4 of ETB 99.01 million (USD 4.36 million) submitted at the end of May, 2017 puts the expenditure at USD 5.28 million representing 9.2% of the 18 months budget. This performance five months into the budget period is low and is an indicator that it may have been overestimated. Budget performance is show in table 1 below. **It was agreed that the RPCMU monitor the budget performance with a view of revising it to realistic targets if found exaggerated.**

**Table 2. 18 Months (1 January, 2017 to 30 June 2018) budget performance**

Category description	Retroactive period			To June, 2018		
	Budget	Actual	%	Budget	Actual	%
Training	102.00	171.31	168%	3,802.81	171.31	4.5%
Works	1,320.42	398.36	30%	39,552.26	398.36	1.0%
Consultancies	375.00	0.00	0%	3,542.87	0.00	0.0%
Goods, Services and Inputs	0.00	50.81	0%	8,291.21	50.81	0.6%
Salaries and Allowances	170.98	212.03	124%	1,130.43	212.03	18.8%
Operating Costs	69.00	86.77	126%	791.11	86.77	11.0%
<b>Total</b>	<b>2,037.40</b>	<b>919.28</b>	<b>45%</b>	<b>57,115.68</b>	<b>919.28</b>	<b>1.6%</b>

4. **Disbursement.** As of 31 May, 2017, IFAD Loan was 9.97% disbursed (SDR 7.27 million of SDR 72.95 million allocated) including the authorised allocation while on the IFAD grant only the authorised allocation of SDR 73,628 had been disbursed. The actual disbursement on the combined IFAD loan and grant is SDR 7.34 million (9.9%) of the total allocation of SDR 74.03 million leaving a balance of SDR 66.69 million to be accessed by the Programme from IFAD. The ASAP grant has only disbursed the authorised allocation of SDR 0.66 million representing 8.4% of the SDR 7.87million allocated. Further, of the allocated retroactive financing amount of USD 2.00 million, 0.92 million was achieved. Summary of IFAD loan and grant is shown in table 2 below. Details of disbursement by financier, by category and by component by financier are shown at appendix 5. The IFAD loan, compared with a project of the same disbursement profile in the first year of implementation actual disbursement performance is considered **satisfactory though the disbursement drivers have been the advances to the designated account.**

**Table 3. Status of IFAD loan and grant disbursement by category (SDR) as at 31/05/2017**

Cat	Category description	Original allocation	Disbursed	Balance	% Disbursed
I	Training	2,700,000.00	125,045.14	2,574,954.86	4.6%
II	Works	50,600,000.00	290,772.37	50,309,227.63	0.6%
III	Consultancies	3,520,000.00	0.00	3,520,000.00	0.0%
IV	Goods, Services and Inputs	6,050,000.00	37,088.11	6,012,911.89	0.6%
V	Salaries and Allowances	2,300,000.00	154,768.20	2,145,231.80	6.7%
VI	Operating Costs	1,550,000.00	63,332.23	1,486,667.77	4.1%
	Authorised Allocation	0.00	6,667,399.34	(6,667,399.34)	0.0%
	Unallocated	7,310,000.00	0.00	7,310,000.00	0.0%
	<b>Total</b>	<b>74,030,000.00</b>	<b>7,338,405.39</b>	<b>66,691,594.61</b>	<b>9.9%</b>

5. **Review of the designated account and other programme accounts.** Except for the authorised allocation of USD 10.00 million (equivalents of SDR 7.33 million) transferred on 21 April, 2017 no further deposits have been made on the designated account. By 31 May, 2017, USD 5.00 million had been transferred to the programme operating account realising ETB 113.97 million, out of which ETB 33.47 million has been transferred to RPCMUs. A combined total of equivalents of USD 8.52 million was still held on the designated account and the programme account at FPCMU. It was observed that whereas the authorised allocation is accounted for, the designated account was not reconciled for the month of April; 2017 on the account that no replenishment withdrawal application was prepared. The mission emphasises that just like the reconciliation of operating account is done on a monthly basis, so should be the designated account. **It has been agreed that the designated account reconciliation is an internal control tool that will be done on a monthly basis.**
6. **Statements of Expenditure (SOEs) Spot check and quality of withdrawal applications.** The mission reviewed the “Smart SOEs” supporting WA number 3 reimbursed in respect of retroactive financing. The random selection of 59% (ETB 11,982,260 of ETB 20,182,607) of the value reimbursed made from the SOE and the respective support documents revealed that items of expenditure selected were paid in accordance with the GOE financial regulations and financing agreement and are eligible for claim from IFAD. Whereas the overall quality of the WA and the related SOE supporting documents were acceptable to IFAD, there is need to improve attendance lists in SNNPR; filing by having a complete set of documents supporting a transaction at one location – RPCMU and FPCMU as opposed to having incomplete documents at either site and to create space for PASIDP II files by archiving phase I documents. Oromia and SNNPR RPCMUs are most affected in terms of space to accommodate both staff and programme files.
7. **Counterpart funds.** Under PASIDP II, GOE will finance taxes and contribute to salaries and operating costs in the retroactive financing period. As of 31 May, 2017 the Programme recorded ETB 1.61 million (USD 70,914) as counterpart contribution out USD 7.12 million in the first 18 months targets, this represents 1% performance. Whereas this performance is low, the current shortcomings do not jeopardise implementation as GOE is financing taxes whenever they are due. **Counterpart financing is rated satisfactory.**
8. **Beneficiary contribution.** At appraisal, the beneficiaries were expected to contribute USD 12.77 million towards civil works and material inputs. As of 31 May, 2017 no contribution had been realized as activities implemented did not require contribution from the beneficiaries. The mission however noted that whereas beneficiary contribution is anticipated, there is no standard beneficiary contribution tracking tool. This may lead to over or under reporting of the contribution. **It has been agreed that the RPCMU develop a standard beneficiary contribution tracking tool/form and distribute it to all RPCMUs to facilitate reporting of beneficiary contribution.**
9. **Compliance with loan covenants.** The Programme has been generally implemented in compliance with loan covenants; except in cases of delays in implementing an accounting software, timeliness and content of periodical financial and other reports and development of gender mainstreaming guidelines. **This aspect has been rated moderately satisfactory.**
10. **Procurement.** The programme has prepared a first 18 months procurement plan in line with the AWPB and a number of procurements have been initiated. The plan will require up-date of actual procurement actions in the course of the plan period to review performance and address emerging challenges. Contract register and individual contract management forms have been developed and updated. The mission however notes that slow procurement processes and

poor contract management that characterised PASIDP I still persist. The recruitment of an experienced Procurement Officer to help address some of these challenges and back-stop RPCMUs has not been concluded as an earlier identified candidate was rated unsuitable for the position by IFAD. The mission rated procurement aspects **moderately satisfactory**. It was agreed that **the FPCMU fast track the recruitment of a Programme Procurement Officer**.

11. **Audit.** The first statutory audit for PASIDP II is not yet due. The Programme will be audited by the Federal Auditor General (who delegated the responsibility to Audit Services Corporation). The mission notes that whereas the financing agreement entered into force in December, 2016, implementation started earlier during the retroactive financing period. Thus, by the end of the fiscal year 2016/17, twelve months of implementation will have lapsed. Accordingly, the programme will prepare for the first year audit to take place as at 7 July, 2017. The audit Terms of Reference (TOR) will be finalised and submitted to IFAD for a No Objection and shared with the auditor. **It has been agreed that the FPCMU submit the TOR for the external audit together with key programme documents with the auditor as the draft financial statements are being finalised.**

	<b>Agreed action</b>	<b>Responsibility</b>	<b>Action date</b>
1.	Fast track filling of vacant financial management positions and a Procurement Officer	NPC	31.07.2017
2.	Implement an accounting software in accordance with a comprehensive and consistent chart of accounts satisfactory to IFAD	NPC/Senior Programme Accountant	30.09.2017
3.	Monitor the budget and consider revising it to realistic targets	NPC/M&E Specialist/Senior Programme Accountant	31.12.2017
4.	Reconcile a designated account on a monthly basis	Senior Programme Accountant	On going
5.	Improve filling of Programme documents both at FPCMU and RPCMUs	NPC/Senior Programme Accountant	30.08.2017
6.	Develop a Standard Beneficiary contribution tracking form	M & E Specialist/Senior Programme Accountant	31.07.2017
7.	Share approved audit TOR and key programme documents with the auditors	NPC/Senior Programme Accountant	30.06.2017
8.	Fast track recruitment of Programme Procurement Officer	NPC	31.07.2017
9.	Provide to IFAD interim financial reports on a semi-annual basis. These financial should include a statement of expenditure by component and by financier among other requirements	NPC/Senior Programme Accountant	Every six months

## **Annex III Irrigation Development and Water Management**

### **I. Introduction**

1. The second phase of the Participatory Small-scale Irrigation Development Programme (PASIDP II) became effective on 13 February 2017. The Programme Area covers four regions of Ethiopia, namely Amhara, Tigray, Oromia and SNNPR. The Programme objective is to provide improved income and food security for rural households on a sustainable basis by developing small-scale irrigation schemes and adjacent watersheds. There are three Programme components:

Component A: Investment in Small-scale Irrigation Infrastructure  
Component B: Investment in Capacity for Sustainable Agriculture  
Component C: Programme Management, M&E and Knowledge Management

2. Under Component A, the Programme will develop or upgrade 15 000 ha in approximately 150 small-scale irrigation schemes and carry out feasibility studies on a further 7 400 ha of schemes to form a pipeline for a future Phase III. It will also (a) increase the available options for water management to better match the wide diversity of biophysical and socio-economic contexts in which smallholders will operate and (b) facilitate the formation, strengthening and engagement of Irrigation Water Users' Association (IWUAs).
3. The first IFAD Supervision and Implementation Support Mission visited the Programme Area from 29 May to 3 June 2017. The key objective of the mission was to assist stakeholders at federal, regional and Woreda levels to: (i) review the start-up of the programme implementation; (ii) assess the adequacy of institutional arrangements made to ensure effective programme coordination, management and implementation at regional and federal levels; (iii) critically assess compliance with provisions of the Financing Agreement particularly with regard to (a) eligibility criteria for construction or upgrading of irrigation schemes, (b) establishment of an M&E system, (c) preparation of a baseline survey, (d) financial management and reporting including audit, procurement, etc; (iv) farmers' ability to acquire increased market-oriented skills and capacity for sustainable agriculture; and (v) propose measures to improve the responsiveness of the AWP&B to identified needs and priorities of the target group while enhancing overall performance and the pace of programme implementation.
4. This Appendix constitutes the Mission's Irrigation/Water management Engineer's contribution to the overall Supervision Report.

### **II. Physical Progress**

5. Some 4 900 ha of irrigation, in 25 separate schemes, were currently under construction and likely to be completed by the end of this year or early next year. A further 1 000 ha in 12 schemes were currently being designed or were awaiting 'no objection' to proceed with construction. The distribution of these schemes is shown in table 1. Altogether, these 37 schemes should accommodate a total of about 12 000 farmer households at 0.49 ha per farmer. This compares favourably with the AWPB which envisages 46 schemes being completed by end-June 2018. Hence, at this early stage of the Programme, physical progress can be rated as satisfactory.

**Table 1: Summary of Scheme Development Progress at June 2017**

Region	Total Area (ha)	No of Schemes	Average Area/Scheme (ha)	No HHs	Area/HH (ha)	Remarks
Tigray	383	3	128	738	0.52	Under construction
Tigray	135	2	68	223	0.61	Ready for submission for NO
Oromia	2198	10	220	4659	0.47	Under construction
Amhara	2341	12	195	4226	0.55	Under construction
SNNPR	0	0	na	0	na	Currently being studied/designed
	5057	27	187	9846	0.51	

### III. Scheme Selection, Study and Design Process

6. It was understood that the schemes under construction had all been selected for prefeasibility assessments under PASIDP I, through a similar process, and considering similar criteria, to those described in the PDR/PIM for PASIDP II, i.e. through requests made by farmers through the Kebeles/Woredas. Schemes that passed the prefeasibility screening were then submitted to the Regional BoARD for full feasibility studies, which were then carried out either by consulting companies, by the Regional Bureaux of Water Resources, or by Regional Study and Design public enterprises.
7. The intention of the PDR was that the ensuing reports would then be reviewed by the Federal PCMU. If necessary the reports would then be sent back to the authors for revision or clarification. Once these have been carried out, the reports would be resubmitted to FPCMU and, on the basis of the final reports, a scheme-by-scheme decision would be taken on whether to proceed with the detailed design.
8. However, current practice is different to that intended: instead of the FPCMU reviewing the feasibility reports it appears that it often engages a second consultant/bureau to undertake the task itself; moreover, the second consultant/bureau, instead of simply reviewing the previous feasibility report, now prepares a new study and report altogether. Thus, in effect, two feasibility studies are prepared for some schemes. And a similar approach appears to be adopted for the detailed design studies. The purpose of the approach is apparently to ensure quality – which is laudable – but it manifestly does not achieve the intended purpose because the FPCMU often now has two versions of each studies to choose from and is faced with having to judge which of the versions is superior.
9. For this reason the mission considers the current practice a waste of resources. It is, as mentioned above, laudable that FPCMU places such a high premium on quality assurance, but the process needs to be streamlined as well as made more efficient and cost effective. It is therefore suggested that the present group of second round consultants/public enterprises for studies and designs be replaced by a single consultant/public enterprise to be responsible at the Federal level for quality assurance (QA) for all studies and designs prepared at the regional level<sup>10</sup>.
10. Under this arrangement, the feasibility or design consultant/bureau would submit its report to the RPCMU which would forward it to FPCMU. The latter would then instruct its single QA consultant/bureau (appointed initially for a fixed term, of say one year renewable for longer depending on performance) to review the report and advise FPCMU of any queries and concerns. These would then be passed to the original study consultant/bureau for consideration and, if necessary, modification of the report, recommendations and/or designs. The original consultant/bureau would retain professional responsibility (and liability) for the integrity of its reports and designs.

<sup>10</sup> This is not to be confused with the technical support to PASIDP II, to be described later in this paper.

#### IV. Quality of Technical Reports

11. Under the current arrangements, technical reports on each of the various aspects of the feasibility studies and detailed designs are presented in separate volumes that are expected to stand-alone but do not do so. Indeed, no single volume contains the whole story and the mission found it very difficult to lay hands on a full set of reports for some of the schemes visited. In these cases therefore it was not possible to make a full assessment of report. However, there were apparent inconsistencies between the various volumes of the reports, and it was sometimes difficult to follow the logic within a report volume.
12. So far as designs were concerned, there were no album sets of drawings available in the field and no drawings showing the irrigable area, distribution and in-field systems were seen anywhere. For Gobu 4, a spate irrigation scheme, which has adopted a so-called bed bar below river bed level instead of a weir section, an album of drawings was available at the FPCMU but no drawing was included to show the bed bar. Consequently, it was not possible to compare its intended crest level with the invert level of the intakes. In general, the drawings are poorly labelled and therefore often difficult to read – even by an experienced eye.
13. This is a pity, because it is obvious that the authors know the job and know what they are talking about. It is their presentation that lets them down. And this applies throughout the various versions of the feasibility and design reports. There is, therefore, considerable scope for improvement.
14. As an immediate first step it is therefore suggested that for any new feasibility study a main report should be prepared that synthesizes and summarizes the various technical reports and describes, analyses and justifies the proposed scheme in logical, coherent steps. The intention would be that this single volume would concentrate the author's mind and enable the reader to assess the project without having to repeatedly refer to another volume that may not be available. The separate volumes of technical reports could then be gathered into a second single volume of Annexes. Pull-out drawings and maps could be provided. The only reports that should remain separate from the rest are the ESIA/ESMP reports, RAPs and the like, all of which must be prepared separately in any case.
15. A similar approach could also be adopted for the design report with the addition of an album of well-labelled drawings.
16. Draft terms of reference for building capacity in studies and designs are attached. The intention of this support is to enhance the capacity of the FPCMU, the RPCMUs and their service providers to improve their respective outputs and to reduce the risk of poor investment decisions and engineering design failures.

#### V. Approach to Feasibility Reports

17. The feasibility report is the key tool for deciding on whether or not to proceed with a scheme. Much has been said and written about the potential for schemes to engage in value chains. However, at the feasibility stage it is necessary to adopt a cautious approach to avoid unrealistic assumptions and poor investment decisions: any irrigation scheme, at almost any cost, can be justified if it is assumed that the cropping pattern scheme will consist entirely of high value crops but there are good reasons why this is difficult to achieve under smallholder irrigation. Apart from marketing challenges and bearing in mind the typical plot size of less than 0.5 ha, the principal reason is that intensive production of high value crops often means poor rotation and a rapid build up of pests and diseases. And this applies not only to high value crops, but also to lower value crops such as maize.



18. A more modest cropping pattern should be assumed at the feasibility stage, perhaps including no more than 10 percent of vegetables initially. Experience suggests that the present level of capital costs these could easily be justified on this basis.
19. Furthermore, it was understood that a cropping intensity of 200-300 percent is assumed. This is unlikely to be achieved, at least in the first few years of operation. Experience suggests a more modest intensity of 150-175 percent is more realistic, bearing in mind that most households also have dryland crops to attend to.

## **VI. Other Observations from Field Visits**

### **i) Hydrology**

20. The current practice is to size the proposed irrigation scheme on the basis of a single point observation of the dry season flow. That is, the flow measured on one day of the dry season in one year. It is suggested that the measurements should be taken over a much longer period (of weeks, rather than one day). Part of the minimum flow must be reserved for environmental flow (using the method recommended in the Aide Memoire) and a further part should be reserved for any downstream users. The allocations should be clearly explained in the Feasibility Report. It is also suggested that no scheme should be expanded unless it can be clearly shown that this will not adversely affect downstream users.
21. So far as spate irrigation development is concerned, the key hydrological parameters are the probable maximum flood (from which the design flood may be derived), the mean annual flood and the frequency and duration of floods. All these may be estimated by various techniques, but valuable information can almost always be gained from farmers in the fields, particularly on the length of recession curve, since this will influence sizing of the main canal. The impression was gained that this potential source was ignored (at least, the mission saw no evidence to the contrary). Farmers will also provide valuable information on the frequency and depth of irrigation applications.

### **ii) Capacity for Spate Irrigation Design**

22. This is a highly specialized field, populated by only a few specialists in the world. FPCMU readily admits that it needs help with the design of these schemes and it was agreed that a suitable specialist should be single sourced to support capacity building for study and design. Draft Terms of Reference are attached from which it will be seen that the suitability emphasis for the candidate is that he shall have gained his experience as a practitioner in the field rather than researcher.

### **iii) Irrigation Water Users Associations**

23. The impression was gained that the IWUAs established to date remained weak and may not have been able to contribute meaningfully to the study and design process. They did not appear to have been prepared to undertake responsibility for operation and maintenance – or at least they did not know how much they needed to budget for the costs and in most cases, therefore, they had not yet started to put any money aside for the purpose. RPCMUs were of the opinion that this impression was incorrect and that most IWUAs were in good shape. However, there were no M&E reports to confirm this and the mission could only go by what it observed in the field.
24. Little action appeared to have been taken on capacitating the IWUAs in the way foreseen by the PDR (Appendix 4). It was therefore agreed that the FPCMU recruits a competent service provider for support to capacitating IWUAs and strengthening participatory processes as soon possible. Draft Terms of Reference are attached.
25. On operation and maintenance, three level of activity should be considered:
  - Routine (such as running repairs to cracked canals, desilting and the like)

- Periodic (such as replacement of gates)
  - Emergency (such as a washed out diversion structure)
26. As a guide, a budget of two percent of the capital costs should cover routine and periodic maintenance. However, providing for emergency maintenance/repairs is another matter as it would clearly be unrealistic to expect farmers to put away sufficient savings to cover the cost of such repairs. It was suggested that, in the event of emergency repairs becoming necessary the scheme could perhaps borrow the required funds from a local financing institution. This too might be unrealistic.
27. An emergency such as a washed-out diversion structure could happen as a result of either of two things: a design fault or the occurrence of a flood greater than the design flood. Should a washout occur, however, farmers would never know which of these two things had caused it. Under the circumstances, BoARD may have to take responsibility for the costs.

## **Annex VI Technical Report on Access to Financial Services**

### **I. Introduction**

1. The Government of Ethiopia and the International Fund for Agricultural Development (IFAD) have jointly designed the Participatory Small-scale Irrigation Development Programme Phase II (PASIDP II). Its *development objective* is to “improve income and food security of rural households on a sustainable basis. PASIDP II aims to achieve its goal and objective through the implementation of three components. The expected outcome of Component A is “farmers have access to sustainable irrigation schemes”. For Component B, the expected outcome is “farmers have increased market-oriented skills and capacity for sustainable agriculture”. Component C focuses on (a) learning and knowledge management and (b) Project Management, Monitoring and Evaluation.

2. One of the key activities and support interventions under Sub-Component B.1: Agribusiness Linkages and Market Access is “Access to Financial Services”. Following the general logic of PASIDP II, which relies on increased market orientation in irrigated farming, access to appropriate and accessible financial services is a key factor to enable the planned productivity improvements and income increases for the PASIDP II participants.

3. According to project design, PASIDP II contributes to improved financial services at project sites by supporting the formal financial sector through provision of information and technical assistance and by facilitating linkages between the smallholders and local financial institutions. The first version of the project design included also direct capital injections as seed capital for on-lending operations of local financial institutions serving the PASIDP II irrigation sites. The operation was designed as a small re-financing facility located in the federal PCMU. This small facility was, however, removed from the final project design, especially as the MOFEC considered it too small for a separate intervention. The logic was that the required extra liquidity for the lending operations in the planned irrigation schemes could be sourced from the much larger financial sector development programmes such as RUFIP I and II and the new World Bank SME Finance Project. Therefore, rural finance operations of PASIDP II were to focus on “softer” elements such as TA and linkage building, with small budgets for these operations included under Sub-Component B.1.

4. Despite their critical importance for achieving the project targets, limited progress has so far been achieved in PASIDP II rural finance operations. The Project Design Document is very general about the expected activities in rural finance and give only limited guidance on the actual activities that should be implemented under these interventions. So far, the focus of PASIDP II implementation has clearly been on the start-up of construction work in the irrigation schemes. Consequently, the AWPB 2017-2018 includes only one small budgeted activity in rural finance (one technical support mission). At the same time, it became clear during the mission that most scheme participants had only very vague and often impractical ideas of how to finance their irrigated farming operations. Many expected to receive the required farm inputs on credit from the Government, which is not the case anymore, and had no practical plans on how to market their increased production. Clearly, a more proactive approach by the programme is required in the planning and implementation of its rural finance support, if the key PASIDP II targets are to be reached.

5. Therefore, one of the key targets of this rural finance support intervention was to establish an agenda for the future rural finance operations of PASIDP II and support the establishment of an integrated approach for the business-related operations of the irrigations schemes, covering such core activities as the procurement of seasonal inputs, the financing operations and the marketing of the produced crops.

### **II. Financial Institutions Serving Irrigation Farmers**

6. To organise appropriate and accessible financial services to smallholders, who operate on new irrigation schemes and aim to modernise their agriculture from subsistence rain-fed to market-oriented irrigated cultivation, the existence of relevant local financial institutions is of core importance. In this respect, the situation is relatively uniform in all the four regions, in which PASIDP II operates. There are two types of financial institutions that serve smallholders at most of the project sites. First, there are the local, *kebele*-based rural savings and credit cooperatives, the RuSACCOs. Second, there are

the branch offices of the large regional MFIs that provide services to both urban and rural low-income people in Ethiopia. Because of their relevance to the PASIDP II success and because their operations are not well known to many PASIDP II implementers or clients, the activities and products of these two types of financial institutions are briefly described below.

7. RuSACCOs. These are small member-owned and member-controlled rural savings and credit cooperatives. Normally, each *kebele* has one operational RuSACCO. They draw their financial resources from members' savings. Increasingly, they also have small lines of credit from *woreda*-based RuSACCO Unions or directly from local development projects. The daily operations are conducted by a small number of salaried staff, which operate from a RuSACCO office. Accounts were in the visited RuSACCOs up-to-date and regularly audited.

8. Savings collection forms the basis for the RuSACCO operations. A visited RuSACCO in Tekia *kebele* close to the Adi Kerakiro irrigation site had 1,358 saving members. The total savings were ETB 1.5 million, on which the RuSACCO pays an annual interest of 5%. It offers five different types of savings products to its clients:

- Regular monthly savings (withdrawable only when a member resigns from the RuSACCO)
- Child savings
- Seasonal input savings
- Individual voluntary savings
- Savings account for local institutions.

9. RuSACCOs educate the farmers and other rural dwellers to save regularly and to plan for their household economies. At the same time the savings form the basis for loan allocation in the RuSACCOs. All their loan products follow the same basic structure: the maximum loan amount per client is defined through a savings multiplier. In the case of Tekia RuSACCO, which has around 600 borrowers, this maximum is three times the regular savings balance, and the same multiplier is universally used by Ethiopian RuSACCOs. In Tekia RuSACCO, all loan products follow the same terms: loans are for one year maximum, to be fully paid at the end of this period, and carry a 15% interest rate calculated on a reducing balance. No fixed collateral is required. Tekia RuSACCO offers five different loan products, which are typical also for other RuSACCOs:

- Petty trade loan
- Animal fattening loan
- Animal rearing loan
- Seasonal input loan
- House construction loan.

10. Because of the low costs of operations and generally limited loan losses, the RuSACCOs can reach a break-even point at a relatively low operational volume level. The visited Tekia RuSACCO made in 2016 an audited net profit of ETB 79,000.

11. Because of their closeness to irrigation sites, savings-first approach, rural focus, and low collateral requirements, RuSACCOs are likely to be the main sources of rural finance services for the farmers in the PASIDP sites and the surrounding watersheds. In those *kebele*, which do not yet have an operational RuSACCO, the PASIDP implementers, together with other local authorities, should encourage their establishment. Successful linkage building with them will be a major factor affecting the future success of PASIDP II operations aiming at higher farming productivity and increased incomes in the participating households.

12. Regional MFIs. All the four PASIDP II regions have a large regional MFI serving the low-income population. Their clientele varies from over 1.3 million in Amhara to some 320,000 in the SNNPR. These MFIs collect money for their savings operations from their savers, but also are major beneficiaries of government's financial sector support programmes, from which they have large credit lines. These include the IFAD-supported RUFIP I and II. Some MFIs have started also to borrow from commercial banks for on-lending purposes.

13. In the rural areas, the MFIs are generally relatively well placed to serve the farming population. They have their rural branch offices at the *woreda*-level. From these branches, they serve their rural

clients either through mobile Credit Officers or from small satellite branches in the *kebeles*. While not reaching the farming areas as effectively as the RuSACCOs, the MFIs still have an important presence in the countryside, and many of the PASIDP I irrigation farmers are their clients. In Tigray region, this rural presence is significant as in Kobo *woreda*, which has seven PASIDP sites, the regional MFI has a branch office and nine small satellite offices.

14. The regional MFIs offer a wide range of business and consumption loans to their clientele. Loan terms, including duration and interest rates, vary between the products. For the PASIDP II purposes, the important are the seasonal business loans and small investment loans. These are issued at the interest rate of 15%-18%. Using only the group guarantee, the maximum loan amount in the Kobo branch was ETB 30,000. With a fixed collateral such as a house in town, the branch had authority to issue loans up to ETB 250,000. The maximum loan amount per client is fixed more flexibly than in a RuSACCO, with smaller saving balance requirements, indicating clearly that the MFIs have a more varied and more substantial financing base than the RuSACCOs.

15. The regional MFIs will be an important source of finance for the farmers at the PASIDP sites. While their branches often are located further away from the irrigation sites than the RuSACCOs, they can reach farmers through their visiting Credit Officers and satellite branches. For the more progressive irrigation farmers, the MFIs will be particularly important business partners as their loan amounts can be substantially higher than is the case with the RuSACCOs.

### **III. Initial Site-based Business Plans Including Rural Finance**

16. As indicated in the Aide Memoire, the market and business aspects of irrigated farming, including the strengthening of farmers' cooperatives, the development of agribusiness linkages and access to financial services, as well as application of improved crop husbandry practices, have not received the required attention during scheme design and implementation, rendering the investments by the Programme at high risk of failure. To improve the situation, the Programme will recruit a Programme Agribusiness Facilitation Team (PAFT) and Regional Agribusiness Facilitation Teams (RAFT) to provide direct support the business and market-related aspects of the PASIDP II operations, including the rural finance issues.

17. Among the first operations that the PAFT and the RAFTs will support is the designing of the initial comprehensive business plans for each of the PASIDP II sites. These will detail the proposed crops, rotations, agronomy; likely markets and marketing arrangements; levels of financing required and sources of finance; revenue and profitability at scheme and individual farmer levels; form of farmer commercial organisation (cooperative); and the technical and engineering details of the physical scheme. This comprehensive planning approach will integrate the rural finance operations to the whole commercialisation process of irrigated smallholder agriculture at each site. During the planning process, the experts in PAFT and RAFTs will also guide the scheme implementers to recognise the importance of financial services in this process and advise them how to link the farmers to the financial institutions, especially the local RuSACCOs and the branches and local staff of the regional MFIs.

### **IV. Linking Farmers to Financial Institutions**

18. The PASIDP II implementers need to play a proactive role when aiming to link the programme farmers to financial institutions and their services. The PAFT and the RAFT members will initially support them in this work. The key message when discussing with the MFI and RuSACCO staff members is clear: when moving from rain-fed, mostly subsistence agriculture to more intensive irrigation cultivation, the costs of operations will go up but so will the incomes of the farmers, making the repayment of the loans much easier. The key element that is important for the financial institutions is that with irrigation, many of the core agricultural risks will significantly decline, which consequently reduces the credit risk of the MFIs and RuSACCOs. Generally, this issue makes the irrigation farmers a much more popular client group to financial institutions, when compared to farmers relying on the rainfall.

19. It was agreed during the mission that the target is that all the PASIDP II smallholders would open a savings account either in a RuSACCO or an MFI, or both. The objective is that the scheme participants would benefit from the services of these institutions at least in the following way:

- Voluntary savings accounts: accumulation of capital for future seasonal and investment needs
- Regular monthly savings (RuSACCOs): larger loan allocation through the savings multiplier
- Input loans: to cover, together with savings, the costs of seasonal input procurement (it is important to make it clear at all irrigation sites that no inputs are any more available from Government or cooperatives on credit; all has to be paid in cash)
- Investment loans: acquisition of small to medium-scale capital assets for irrigation farming.

20. The experience from other similar irrigation schemes shows that the movement towards high-value crops happens gradually. Initial cultivation operations after the scheme start-up often focus on producing larger amounts of traditional crops, with smaller land allocation to crops such as high-value vegetables. The share of these high-value crops then tends to increase in well performing schemes and with well-performing farmers. This pattern fits well to the introduction of farmers to the clientele of the MFIs and RuSACCOs: from smaller initial savings and smaller loans, the successful farmers move to higher savings levels and bigger loans.

21. Later, when the irrigation schemes start to fully produce, more developed financing products will also be required. This is likely to include the development of warehouse receipt systems in areas, where the crops are suitable for this type of operations. Value chain funding at the higher levels of the production chain is also likely to be required for processing and marketing companies. These arrangements, however, can be further discussed after the initial, basic marketing and financing arrangements for each scheme have been agreed on and the process of their implementation has started.

## **V. Financing IGAs on Watersheds**

22. Outside the actual irrigation schemes, one of the key objectives of the PASDP II watershed operations is to encourage new income generating activities in the improved watershed areas, particularly in operations such as small livestock rearing and beekeeping. These operations also offer opportunities for targeting at persons with less land and other assets. It was agreed that the programme implementers systematically introduce these potential beneficiaries to RuSACCOs and MFI offices, to initially open savings accounts. Through regular savings, small collateral-free loans can later be applied for, to make possible the small investments in income generating operations on improved watersheds.

23. The PASDP II-supported IGA operations will be executed according to site-specific Micro-Watershed Plans. It is important that each of these plans has a section on how the potential IGA operators would finance their small investments (beehives, small stock etc.). In principle, this section would describe the available local financial institutions that could provide finance for the IGA investments. The Plan would also indicate how much (what % of the total investment) is the IGA operator expected to save in advance and what share could the RuSACCO/MFI loan cover of the total investment.

## **VI. Capital for On-Lending for Local Financial Institutions**

24. The project design assumed that the PASDP II clients would benefit from the large fund injections to the financial sector by the new World Bank SME Finance Project. The USD 275 million project will start its operations later in 2017. This project, however, will serve a target group well above the scale of the PASDP II irrigation farmers and will not bring extra liquidity for loans for smallholders operating irrigation schemes. This is particularly the case because the RuSACCOs are not even eligible for financing under this new World Bank project. Later, some agro-processors and larger traders may benefit of these services, particularly if the PASDP value chain operations will develop.

25. At the same time both the IFAD-supported RUFIP I and RUFIP II have liquid funds in the DBE that can be revolved to support the liquidity of rural finance institutions. The mission discussed this issue with the DBE. So far, the allocation of RUFIP I and II funds has strongly favoured the large regional MFIs. The reflows of RUFIP I to DBE, after the grace periods, have started from the financial

institutions. Applications for new loans from this accumulated reflow have been numerous from both the MFIs and RuSACCOs. DBE informed the mission that as they were not able to choose between the various applying RuSACCOs, the Project Management Committee decided to give the whole liquid balance of ETB 34 million as a loan to one MFI, Dedebit from Tigraye region. Since then, there have been discussions of giving preference in the RUFIP I reflow allocation to RuSACCOs, which lack capital more than the regional MFI and operate closer to the IFAD target group, the smallholder farmers. DBE informed that the current reflow balance available for new loans by the bank is ETB 30 million, and this amount will increase in the year 2017/18 by around ETB 7 million.

26. Concerning RUFIP II, while all the large loans to regional MFIs are still on their seven-years grace period, the repayments by the participating RuSACCOs and RuSACCO Unions have started. The current accumulated RUFIP II reflow balance in the DBE is ETB 31 million. In the year 2017/18, another ETB 10 million will be added to this balance. No reflows have yet been used for new loans to MFIs or RuSACCOs. DBE informed the mission that the decision of the use of RUFIP II reflows will not be made before 2020, and will at least partly depend on the plans to design a next phase, RUFIP III, for this programme. This arrangement is not typical for IFAD-funded programmes of this type, in which the policy is that the net repayments (meaning net of IFAD loan interest and principal payments) would revolve with the participating financial institutions until the full IFAD loan is repaid by the Ethiopian Government (IFAD loan period for both RUFIP I and II is 40 years).

27. It is important to note that the reflows from both RUFIP I and II will significantly increase when the seven-years' grace periods of the large MFI loans start to expire in the coming years. With this in mind, it was agreed that IFAD Country Office will soonest negotiate with the Government and DBE to get these liquid reflow funds of both RUFIP I and II actively revolving in the rural sector, with the particular target of improving the liquidity position of RuSACCOs, especially those operating around the PASDP implementation sites.

## **VII. Successful Marketing: Improved Incomes and Repayment Capacity**

28. As indicated in the Aide Memoire and further discussed in the Technical Annex on agribusiness and marketing, the business part of the irrigation site development requires urgent action. The field visit revealed that particularly the marketing arrangements and plans for the crops to be produced are very weak and in some visited sites have not been developed at all.

29. A typical pattern in PASIDP-type of irrigation schemes is that initially most farmers increase the production volumes of their traditional food crops, particularly grains, and then gradually move to more demanding high value crops such as vegetables. This approach makes the initial marketing arrangements easier, as there are often markets available for increased grain sales locally, and the crops themselves can be more easily and safely stored than the fast perishable vegetables.

30. However, even for traditional crops and especially for crops such as vegetables, there is a need at all sites to cooperate in the produce sales, to find the appropriate markets and especially, to try to get the best possible prices. In most sites, these collective marketing arrangements are not there yet. The *kebele*-based multipurpose societies focus on input supply and rarely take part in the marketing of outputs. The result often is that the most common marketing method is to sell to private traders at the farm gate, which often leads to low sales prices and marginal income increases to farmers.

31. From the rural finance point of view, it is critically important that PASIDP II pays serious attention to supporting the irrigation farmers to organise their sales collectively, to reach the best markets for their produce and to negotiate best prices, based on larger quantities of high quality produce for sale. Success in this would mean that farmers could pay their loans back to financial institutions in time, and therefore develop positive banking histories that would help to access bigger loans during the next seasons.

32. In most cases the above would mean that the irrigation farmers would need to form marketing cooperatives and sell their produce through these organisations collectively. The mission reviewed one successful example of this type of marketing arrangement. In Tekia *kebele*, in Tigraye region, farmers have through their own initiative formed an irrigation farmers' marketing cooperative for the sole purpose of collectively selling their key crops. The cooperative has 406 members from two irrigation sites covering 950 ha of irrigated land. In the 2016 season, the cooperative sold in bulk such

crops as cabbage, tomato, onions and garlic. The total sales covered 78 truckloads of agricultural produce. The produce was sold to 10 different large traders/processors in the regional capital, who would have been unreachable for smallholders selling individually. The buyers paid for their procurements on the day of the sale direct to the bank account of the cooperative, after which the cooperative paid directly to the members. For its services and to cover its operational costs, the marketing cooperative charged the farmers a commission of 2% on the sales. Importantly, the interviewed members were very happy with the arrangement and indicated that without this cooperative, they would not have been able to sell this type of produce volumes at the prices that the cooperative managed to reach.

33. As indicated, successful marketing creates bigger incomes, and bigger incomes make the repayment of the loans easier. This kind of successful operations then encourage the farmers to enter into more developed cultivation operations the next season, with a potential of even higher future increases in household incomes.



## Annex V Terms of References

### A) Terms of Reference for capacitating IWUAs

#### Introduction and Background

1. The IFAD-assisted second phase of the Participatory Small-scale Irrigation Development Programme (PASIDP II) became effective on 13 February 2017. The Programme Area covers four regions of Ethiopia, namely Amhara, Tigray, Oromia and SNNPR. The Programme objective is to provide improved income and food security for rural households on a sustainable basis by developing small-scale irrigation schemes and adjacent watersheds in these regions. There are three Programme components:  
 Component A: Investment in Small-scale Irrigation Infrastructure  
 Component B: Investment in Capacity for Sustainable Agriculture  
 Component C: Programme Management, M&E and Knowledge Management
2. Under Component A, the Programme intends to develop in a fully participatory way, 18 400 ha of small-scale irrigation in approximately 150 schemes. It also intends to establish and empower irrigation water users' associations (IWUAs) at these schemes<sup>11</sup>. The necessary support is to be provided through an experienced service provider in cooperation with Woreda public officials.
3. It is therefore intended to provide the following team of consultants to undertake the task.

#### Objectives of the Assignment

4. The objectives of the assignment are to facilitate the establishment and empowerment of sustainable IWUAs that are able to participate effectively in, and influence, scheme design and construction, as well as to take over responsibility for scheme operation and maintenance on a sustainable basis.

#### Composition of IWUA Empowerment Team and Duration of Assignment

5. The team will comprise:
  - Full time Senior WUA Specialist
  - Part time Irrigation Engineer
  - Part time Rural Sociologist
  - 4 No Regional WUA Facilitators
6. The duration of the assignment will be three and a half years (Phase I), renewable for a further period of three and a half years or until Programme Closure if earlier (Phase II).

#### Qualifications and Experience of Team Members

The required qualifications and experience of the various team members are shown in [Table 2](#)

[Table 2](#)

Position in Team	Qualifications	Experience
Senior WUA Specialist	First degree in agriculture, rural sociology or geography; advanced degree in smallholder institutions or other relevant field.	20 years' experience in agriculture and rural development, including smallholder irrigation. At least seven years should have been spent on designing and

<sup>11</sup> IWUAs are mandated by a new Federal Proclamation (2014), recognizing these associations as a legal entity for the operation and management of irrigation systems.

		implementing WUA development programmes.
Irrigation Engineer (part time, as required)	First degree in civil engineering or related field; advanced degree in irrigation	10 years' experience in the study and design of smallholder irrigation, preferably mostly in sub-Saharan Africa.
Rural Sociologist (part time, as required)	First degree in sociology or social anthropology. Advanced degree in rural sociology.	15 years' experience in rural sociological analysis, preferably mostly in Sub-Saharan Africa.
Regional WUA Facilitator	Degree in agriculture, agricultural economics, rural sociology or other field relevant to agriculture, rural development or smallholder irrigation	7 years' experience in agriculture and rural development in Ethiopia.

### Location

Post	Location
Senior WUA Specialist	Addis Ababa, Ethiopia, with frequent field travel to the four Programme regions.
Irrigation Engineer	Addis Ababa and the four Programme Regions, as required
Rural Sociologist	Addis Ababa and the four Programme Regions, as required
Regional IWUA Facilitator	One in each of the four Programme Regions

### Duties

- The Senior WUA Specialist, together with the Irrigation Engineer and Rural Sociologist, will first undertake a study tour of all completed PASIDP II schemes and their Woredas and carry out a rapid assessment of the current status of their IWUAs, noting all of their current challenges, strengths and weaknesses. The team (less the Regional Facilitators) will then prepare a draft plan for the capacitation/empowerment sub-Programme, based on the rapid assessment, the current legal framework and experience from elsewhere. This will then be reviewed at a stakeholders' workshop attended by the consultants, Federal and Regional staff of the Programme, representatives of the Woredas and preferably representatives of existing IWUAs. The plan will then be updated accordingly.
- At this stage the Irrigation Engineer and Rural Sociologist will withdraw until further notice. The Senior WUA Specialist will then prepare a Manual for IWUA Field Training, for use by the prospective Regional IWUA coordinators. The Manual will present step-by-step instructions on how to set up a sustainable WUA, from initiation and formation through to fully participating in the scheme design and construction, taking over a constructed scheme from the contractors (or Programme), as well as subsequent operation and maintenance. It will include a set of model byelaws for the IWUA, as well as copies of the standard forms of agreement between an IWUA and the Programme for (a) investment in the scheme and (b) its eventual take over. It will also explain the responsibilities for routine, periodic and emergency maintenance, as well as presenting details of a simple method of calculating the amount of a suitable annual subscription to cover the costs. It will furthermore explain the roles of the Woredas in the empowerment process.

9. The Regional IWUA Coordinators will then commence their respective assignments by attending a five-day residential training course, conducted by the Senior WUA Specialist, the Irrigation Engineer and the Rural Sociologist. This will be used to train them and test them in every aspect of IWUA establishment and empowerment, as described in the Training Manual, to equip them for their upcoming role in the process.
10. The Coordinators will then be given a programme of planned activities and targets to be achieved and placed in each of the Regions for that purpose, all under the supervision and guidance of the Senior WUA Specialist, who will make regular, once per month follow-up visits to each of them. The objective will be to see, in conjunction with the Woreda, that an IWUA is properly established at each scheme constructed or under construction, with scheme-specific byelaws adopted at a general meeting as well as democratically elected officials. IWUAs at schemes already constructed should also have entered into a formal agreement with the Woreda and/or Programme, as appropriate, under which the IWUA accepts full responsibility for operation and maintenance costs.
11. The Senior WUA Specialist and Coordinators will continue with these activities until the end of the first Phase but will, in addition, pay regular visits to established, operational IWUAs to provide an after-care service.
12. Finally, the Senior WUA Specialist will distil the experience gained into a manual of best practices for empowering IWUAs.

### **Reporting**

13. The Senior WUA Specialist will be responsible to the Federal Programme Coordinator, PASIDP II and will provide him with regular monthly progress reports on activities and achievements under this sub-project. The Team Leader will also prepare an Inception Report at the end of the first six weeks of the assignment, a Mid-Term Review Report and a Terminal Report at the end of each period of assignment (i.e. at the end of each of Phases I and II respectively).

### **Deliverables**

- Inception report
- Strategic Planning Workshop
- Manual for IWUA Field Training
- Training Course for Regional IWUA Coordinators
- Field Training Courses for IWUAs (one per scheme for 75 schemes – Phase I)
- Mid-Term Review Report
- Terminal Report and Manual of Best Practices for Empowering IWUAs

## **B) Terms of Reference for building capacity for studies, designs and quality assurance**

### **Introduction and Background**

1. The second phase of the Participatory Small-scale Irrigation Development Programme (PASIDP II) became effective on 13 February 2017. The Programme Area covers four regions of Ethiopia, namely Amhara, Tigray, Oromia and SNNPR. The Programme objective is to provide improved income and food security for rural households on a sustainable basis by developing small-scale irrigation schemes and adjacent watersheds. There are three Programme components:  
  
    Component A: Investment in Small-scale Irrigation Infrastructure  
  
    Component B: Investment in Capacity for Sustainable Agriculture  
  
    Component C: Programme Management, M&E and Knowledge Management
2. Under Component A the Programme intends to identify and select 22 000 ha of schemes and to carry out feasibility studies and detailed designs for 22 000 ha of small-scale irrigation schemes, adopting a fully participatory approach throughout. By the time of the first Supervision Mission in June 2017, some 5 050 ha had already been studied and designed, of which 4 900 were under construction, and a further 900 ha were currently being studied.
3. Under PASIDP II, studies and designs are generally carried out by national consulting companies, regional bureaux of Water Resources or regional Study and Design enterprises. They are then subjected to an independent quality assurance review, carried out by a third party – usually by one or other of the entities listed above. A recent review of some of the outputs from completed studies and designs revealed considerable room for improvement: the reports lacked clarity and contained many internal inconsistencies and gaps; the drawings too were inadequately labelled and lacked detail and clarity. In most cases, therefore, it is difficult for a reviewer to check the integrity of the studies and designs. Since the reports do not provide any detail on the process it is also difficult to judge the extent to which a participatory approach has been adopted. Furthermore, the ESIA/ESMP reports are not cross-referenced to the feasibility reports or vice versa. Neither are the ESIA/ESMPs referred to in the design reports.

### **Objective of Assignment**

4. The objective is to improve (a) farmers' participation as well as (b) the quality of the work and outputs to the extent that these may be easily reviewed by others, for quality assurance purposes, to reduce the risk of design failures. This implies the inculcation of international best practices.

### **Proposed Capacity Building**

5. It is now intended to provide a team of consultants to provide training and mentoring all engineers and other professionals engaged or likely to be engaged on PASIDP II participatory studies and designs. Staff to be trained and mentored will be Programme irrigation engineers, hydrologists, agronomists, economists, geotechnical specialists, sociologists and environmentalists, at Federal and Regional Level, as well as corresponding staff in the bureaux of Water Resources and Study and Design enterprises. Private consulting firms involved in the Programme may also be invited to participate.

### **Composition of Capacity Building Team**

6. The capacity building team will comprise:
  - Senior Irrigation Engineer/Team Leader
  - Engineering Hydrologist
  - Agronomist
  - Agricultural Economist

- Rural Sociologist
- Geotechnical Specialist
- Environmentalist

### Duration of Capacity Building Assignment

7. The duration of the first phase of the assignment will be 12 months, with follow up inputs of one month each by the Team Leader at the end of Years 2 and 3.

### Qualifications and Experience of Team Members

The required qualifications and experience of the various team members are shown in [Table 2](#)

**Table 3**

Position in Team		Qualifications	Experience
Senior Irrigation Engineer/Team Leader		First degree in civil or hydraulic engineering; advanced degree in irrigation engineering	20 years' experience in the study, design and construction of smallholder irrigation schemes, preferably most within Sub-Saharan Africa.
Engineering Hydrologist		First degree in civil engineering or related field; advanced degree in hydrology	10 years' experience in hydrological analysis for irrigation, of which some should have been gained in Sub-Saharan Africa. Experience in hydrology of spate irrigation would be a distinct advantage.
Agronomist		First and advanced degree in agronomy	15 years' experience in the agronomy of irrigated crops, preferably mostly in Sub-Saharan Africa.
Agricultural Economist		First degree in agriculture, agricultural economics or related field; advanced degree in agricultural economics	10 years' experience of financial and economic analysis of agricultural investment projects, including smallholder irrigation projects, of which some should have been gained in Sub-Saharan Africa.
Rural Sociologist		First degree in sociology; advanced degree an advantage	15 years' experience in sociological analysis for agricultural investment and irrigation investment projects, at least 5 years of which should have been gained in Sub-Saharan Africa
Geotechnical Specialist (part time)		First degree in civil engineering or geology; advanced degree in geotechnical engineering.	10 years' experience of geological/geotechnical investigations for water resources projects
Environmentalist		First degree in environmental science or related field; advanced degree in rural environmental science	10 years' experience of designing and executing environmental impact assessments and environmental and social

management plans. Experience in smallholder irrigation in Sub-Saharan Africa a distinct advantage

8. All the above should have gained the bulk of their experience in the private sector, working for international consulting companies engaged in the smallholder irrigation subsector and fully conversant with best practices in the study, design and documentation of smallholder irrigation schemes.

#### **Location**

9. Addis Ababa, Ethiopia, with frequent field travel within Ethiopia.

#### **Duties**

10. The consultants will:
  - After an initial assessment of current study and design practice in the regions, including farmer participation in activities, prepare a curriculum and training course, covering each of the disciplines listed in Table 2, for each of the regions. The course should cover training in 'how to do' each of the jobs involved in preparing feasibility studies, detailed designs, tender documents and working drawings, including how to improve the presentation, quality and storage of reports and other documents.
  - Prepare a manual of best practices the study, design and tender documentation processes, with details how to engage the prospective users in every step.
  - Provide regular mentoring by rotation to each of the regions
  - Establish a competition between the Regions for (a) best feasibility report, (b) best design report (c) best tender documentation or (d) best working drawings, with an appropriate prize.

#### **Reporting**

11. The Team Leader will be responsible to the Federal Programme Coordinator, PASIDP II and will provide him with regular monthly progress reports on their activities and achievements. The Team Leader will also prepare a terminal report at the end of the assignment.

#### **Deliverables**

- Inception report
- Curriculum for Training Course
- Training Course
- Manual of Best Practices
- Competition for Best Work

### **C) Terms of Reference for spate irrigation consultant**

**Qualifications and Experience:** First degree in civil engineering; advanced degree in irrigation engineering or related field. Minimum of 20 years' professional experience, of which at least 10 years should have been spent on the study and design of spate irrigation schemes, and all of which should have been gained in the service of international consulting engineers. Experience in irrigation-related training would be a distinct advantage.

**Objective of Assignment:** To upgrade the knowledge of engineering staff of MoARD and its service providers, at Federal and Regional level, of the study and design of spate irrigation systems.

**Location:** Addis Ababa, Ethiopia, with frequent field travel within Ethiopia.

**Duration:** Four months in Year 1, followed by 1 month each in Years 2 and 3.

**Duties:** In his first input of four months the consultant will:

- Design and carry out a five-day in house training course in spate irrigation study and design for PASIDP II engineers, including engineers of Mo-ANR and its service providers (e.g. Bureau of Water Resources, consultants) at Regional and Federal Level.
- Provide on-the-job training and mentoring to PASIDP II engineers in the study of at least three spate irrigation schemes, including participatory preparation of feasibility reports in consultation with the prospective scheme users for submission to the Programme Coordinator for approval.
- Provide further on-the-job training and mentoring to PASIDP II engineers in the detailed participatory design of three approved spate irrigation schemes, including preparation of a design report and tender documents, including an album of drawings for each scheme.
- Provide further on-the-job training and mentoring to PASIDP II engineers in the bid evaluation and award process.
- Prepare a *Manual for the Study & Design of Spate Irrigation Schemes in Ethiopia*.

In his second and third inputs the consultant will follow up and provide further mentoring to staff previously trained staff, identify any gaps or weaknesses in their spate irrigation-related work and remedy these as required. He will also, in his final input, update the Manual.

Throughout his assignment the consultant will ensure that the participatory approach envisaged by the PDR and reiterated in the PIM is inculcated in the engineers being trained.

**Responsible to:** The Federal Programme Coordinator, PASIDP II.

**Reporting:** Monthly progress reports for each month of service except for the last, which be a terminal report on the overall assignment.

## **D) Terms of Reference for Service Provider for Provision of Capacity Building for Irrigation Scheme Financial Viability Assessment and Monitoring**

### Background

1. PASIDP II is based on the assumption that poor farmers who are provided with access to a secure irrigation production base as well as access to markets and services, will be able to produce and market greater volumes of produce in a profitable scenario. The programme has three components:
  - a) Component A: Investment in Small-scale Irrigation Infrastructure
  - b) Component B: Investment in Capacity for Sustainable Agriculture
  - c) Component C: Programme Management, M&E, and Knowledge Management.
2. The successful implementation of Component B is central to the successful achievement of the programme objective “to provide improved income and food security for rural households on a sustainable basis”. An expected outcome of Component B is that “farmers have increased market-oriented skills and capacity for sustainable agriculture”. Component B supports a range of activities designed to ensure that the farmers operate in an environment that is more conducive to rural commercial development. This includes strengthening of farmers’ cooperatives, the development of agribusiness linkages and access to financial services, as well as application of improved crop husbandry practices mainly through farmers’ research groups and extension support.
3. It has been observed that these aspects have not received the required attention to date during irrigation scheme design and implementation, putting the investments by the Programme at high risk of failure, as the commercial viability for the users is essential to guarantee sustainability of the schemes. There is so far little application of the required functions due to the scale of the requirements. With only one specialist available within the RPCMUs, it is recognized that there would need for additional specialist support for achievement of this outcome.
4. **The Assignment.**
5. A Service Provider (SP) will be appointed to provide the necessary support. It will report to the FPCMU, and maintain close contacts with each RPCMU.
6. The Service Provider SP will support implementation of the following key tasks:
  - a) Establishing a Programme Agribusiness Facilitation Team (PAFT) at the Federal level, and four Regional Agribusiness Facilitation Teams (RAFT);
  - b) The PAFT will devise a strategy and time-table for support at the national level, provide a link to policy makers and high-level market entities, and provide direct technical support at Regional levels.
  - c) Establishing the status of current business planning and financial analysis for irrigation schemes and associated IGAs;
  - d) Designing and testing training modules and templated for relevant Federal, Woreda and Kebele extension services, as well as for farmers and IGA proprietors;
  - e) The PAFT will also explore the options for extensive use of electronic media by farmers as a means of engaging with relevant value chain entities;



- f) Each RAFT will provide direct training and mentoring for all cooperatives engaged at each irrigation scheme, and will convene and subsequently provide training and mentoring to Market Access Alliances involving relevant commercial entities;
  - g) They will provide training and mentoring for financial analysis of irrigation schemes and associated IGAs at all relevant levels of intervention over a prolonged period, from scheme/IGA inception until sustainable operations are achieved;
  - h) The SP will use the experience gained through this assignment to provide practical advice to the FPCMU on modalities of providing this support, including advice on modifications and enhancements to the Programme Implementation Manual (PIM);
  - i) It will ensure that the outcomes of the services provided are adequately captured in the programme M&E system;
  - j) Prior to the conclusion of the assignment, the SP will provide written case studies of successful and failed support efforts.
7. Team Composition.
  8. The PAFT team would comprise two or three highly experienced individuals with expertise in Rural Marketing Chain Development, Agricultural Produce Marketing, Rural Finance and Agricultural Productivity. The individuals would have at least ten years professional experience, as well as relevant tertiary qualifications. Experience in the Agribusiness Marketing and Financial Development in Ethiopia would be highly valued.
  9. Each RAFT will comprise of two or three experts with skills relevant to the training and mentoring of participants in rural value chains such as Agricultural Economics, Agribusiness, Rural Finance and Crop Production Technology. The individuals would have at least five years professional experience, as well as relevant tertiary qualifications. Experience in the Agribusiness Marketing and Financial Development in Ethiopia would be highly valued.
  10. All team members would need literacy in English as well as Ethiopian languages. They would need to be highly proficient in relevant computer applications, especially EXCEL, Word and Power Point. It is expected that teams would make extensive use of various visual media to enable rapid uptake of training and mentoring.
  11. Deliverables. The main deliverables from this assignment would be:
    - a) An inception report for the PAFT and for each RAFT within 30 days of the assignment commencing;
    - b) Quarterly reports for each region, as well as a consolidated programme report;
    - c) An annual, that will be presented initially in draft form to a workshop of key stakeholders;
    - d) An assignment completion report;
    - e) Tools and templates for use in providing the required training and mentoring;
    - f) Ad hoc and case study reports as appropriate, and as requested by the FPCMU;
    - g) Overall, the SP will be required to deliver clear evidence of progress in enabling PASIDP Schemes and IGAs to accurately formulate acceptable business plans, and for these to lead to profitable scheme and IGA operations. The levels and proportions of scheme profitability will be key indicators of performance.
  12. Timing. The SP will be appointed as soon as possible. It will have an initial service duration of two years, with the possibility of extension, based on performance.

## Annex VI Agribusiness and Marketing Guidelines

### Business Plan Development

1. The business plan at the scheme level should be developed as part of the initial scheme design process. The plan should be formulated as follows:
  - a. Obtain the following information;
    - i. Market information from the Regional Market Opportunity Study and other reliable sources of market information;
    - ii. Identification of the possible crops and appropriate crop rotations and cropping patterns for the site;
    - iii. Available water resources from the irrigation scheme, especially during the dry season.
  - b. From this, determine an appropriate cropping pattern and crop areas for each season.
2. Financial Analysis of Farming/Cropping System. This is built using the following steps, using the XL Based Financial Analysis Template:
  - i. Enter the cropping pattern for each season;
  - ii. Calculate the estimated gross margin analysis for each crop on a per hectare basis, including both the farmers labour and financing costs;
  - iii. Calculate the estimated overhead costs, including for scheme maintenance and depreciation, on a per hectare basis;
  - iv. Calculate the whole farm budget from these by entering the actual areas cropped by each farmer.
  - v. Calculate the entire scheme financial analysis by aggregating the per hectare costs.
  - b. This analysis should be done before a scheme is constructed, as part of the feasibility study.
  - c. It should be updated before each season of cropping, and again at the conclusion of the season when actual yields, prices and quantities are known.
  - d. Several important indicators can be derived from this analysis. These are:
    - i. Overall Scheme profitability;
    - ii. Profitability per farmer;
    - iii. Cost of sales as a proportion of costs (this is a very important indicator of the degree of risk, the higher the proportion, the higher the risk, and it also shows the level of farmer productivity);
    - iv. Income per day of farmer labour.
3. During scheme operation, the following procedures can be used to enhance scheme viability:
  - a. Ensure that farmers are in direct contact with likely produce buyers **before** completing production plans;
  - b. Financial services providers to give “cashless” credit, through links and agreements with inputs and service providers;
  - c. Ensure that farmers have agreements for the proceeds of produce sales to be deposited in their accounts with financial services providers, enhancing the prospect of full repayments of credit;
  - d. Continue to update business plans, and in particular, assist farmers to conduct pre- and post-season analysis of these.

### Marketing

1. Key Principles and Procedures.
  - a. Farmers should meet and maintain contact with potential buyers of produce before crop establishment decisions are taken. This engagement should be to share information on buyer's requirements (quantities, specifications, timing of delivery, transport arrangements, price derivation procedures), as well as producer's information (capacity for production, area, history of production, degree of organisation).
  - b. Farmers should be encouraged to aggregate their produce to efficient quantities for transportation, in close consultation with potential buyers.

- c. A key indicator of producer's ability to "meet the market" on favourable terms is the cost of sales as a proportion of revenue calculation. Farmers need to be trained in the calculation and interpretation of this indicator.
  - d. Pricing. Farmers and buyers need to agree on the means of price determination prior to crop establishment. As far as possible, this should be a procedure that uses publicly verifiable indicators (e.g. reports of prices in liquid/competitive markets). However, this **does not mean** that prices should be determined in advance. In fact, this should be very much discouraged, as it leads to an incentive for side-marketing by farmers if prices rise, and to abrogation of agreements to buy by off-takers if prices fall. Prices should be determined by an agreed and verifiable formula as close as possible to the time of delivery of the produce. Sometimes, it is more realistic for prices to be determined **after** delivery, especially for perishable products delivered into highly competitive markets.
  - e. Market Access Alliances (MAAs). Service providers should facilitate the formation of MAAs in every locality with irrigation schemes. Participants should include farmers groups/cooperatives, inputs and farm services providers, potential off-takers and rural financial institutions, as well as public sector extension and cooperative officials. MAAs should become the forums in which market related transactions are identified and implemented between the parties. They will lead to the development of transparency and trust between the participants.
2. A Note on Crop Choice.
- a. Farmers and their advisors often opt for production of high value intensive horticultural crops when provided with irrigation. The incentive is the very high apparent gross margins/profits apparently available from these crops, as well as a pervasive perception that "expensive irrigation" should be used to produce mainly high value crops. However, following this pathway often leads to substantial losses, as well as reduced motivation for farmers to successfully operate irrigation schemes.
  - b. Farmers should be extremely cautious in opting for a high proportion of high value irrigated crops, especially when they are new to irrigated cropping and marketing. The reasons are:
    - i. The apparent high gross margins are illusory, in that they require successful marketing of the entire crop. As this produce is usually highly perishable, the logistical and market absorption challenges are immense, especially in more remote areas. The result is that only a fraction of the produce is actually sold, and most is spoiled, completely removing any profit from the production;
    - ii. Related to the above, a farmer who produces 20 tonnes of tomatoes from a half hectare (a realistic yield under irrigation) would not have had any experience in managing such a large quantity of perishable produce. A high proportion of post-harvest losses would be the most likely outcome;
    - iii. Small market sizes in remote areas, and the costs of delivery to remote markets, are also immense challenges faced by irrigators choosing to grow high value horticultural crops;
    - iv. When faced with these challenges, it is more rational for new irrigators to follow the following crop choice strategy;
      - For most of the area, continue with crops they are most familiar with, and which can be characterised as being easily storable, transportable and saleable commodity crops (e.g. maize, sorghum, millet, beans, sesame etc.);
      - Aim to greatly increase the yields of these crops under irrigation, through improved crop husbandry, application of inputs, and of course, irrigation;
      - Also aim to increase cropping intensity under irrigation to at least two crops per year, of these same range of crops, in an agronomically appropriate rotation;
      - Grow a very small proportion of potentially viable horticultural crops as a means of learning about the production requirements, and especially learning about and resolving marketing difficulties;

- At a later date, after gaining experience and knowledge, gradually increase production of high value crops.

If farmers adopt this strategy, it would still be possible for them to improve their productivity per hectare per annum by 400% or more after receiving access to irrigation, and thus greatly improving their incomes and food security. This would be achieved while minimising marketing and production risks.

Cattle Fattening IGA			
Cattle Being Fattened		20 head	
Fattening Period		6 months	
Purchase Price		ETB 4 600.00 per head	
Facilities	Fattening Pen	ETB 11 500.00	
	Water Storage	ETB 23 000.00	
	Feed Storage	ETB 6 900.00	
	Tools	ETB 4 600.00	
Total Capital Cost		ETB 46 000.00	
The proprietors harvest fodder from nearby farmers fields			
They pay farmers an amount for this fodder, equal to		ETB 23.00 per quintal	100 kg
They also harvest fodder from enclosed areas being rehabilitated, but do not pay for this			
Two persons engaged full time on the work			

PASIDIP II					
CATTLE FATTENING INCOME GENERATING ACTIVITY					
ETB PER YEAR					
ITEM	UNIT	QTY/CYCLE	PRICE/UNIT	ETB PER CYCLE	COMMENT
CATTLE FOR FATTENING	HEAD	20	ETB 4 600.00	ETB 92 000.00	
PURCHASED FODDER	QUINTAL	200	ETB 23.00	ETB 4 600.00	
VETERINARY DRUGS	BASKET	LUMP	ETB 220.00	ETB 4 400.00	BASKET REFERS TO A BLEND OF PRODUCTS
SUB TOTAL INPUTS				ETB 101 000.00	SUB TOTAL INPUTS
LABOUR INPUT	PERSON DAY	360	PERS DAYS	PER 6 MONTHS CYCLE	
FINANCING COST				ETB 5 302.50	
TOTAL VAR COST EXCEPT LABOUR				ETB 106 302.50	TOTAL VAR COST EXCEPT LABOUR
TOTAL REVENUE	PER HEAD	20	ETB 9 200.00	ETB 184 000.00	TOTAL REVENUE
GROSS MARGIN				ETB 77 697.50	GROSS MARGIN
PRODUCTION FINANCE	70% OF CASH VAR COST			COMMENT: ONLY FAMILY LABOUR USED	
(Assume Finance for 6 months)	15% FOR 6 MONTHS				
				58% VarCost/Rev	
				ETB 215.83 Return to Family Labour ETB/Day	

		<b>ETB PER YEAR</b>			
		<b>OVERHEADS &amp; PROFIT</b>			
Item		ETB			
Depreciation			Capital Cost	Annual Depreciation %	Annual Charge
	Fattening Pen		ETB 11 500.00	5%	ETB 575.00
	Water Storage		ETB 23 000.00	5%	ETB 1 150.00
	Feed Storage		ETB 6 900.00	5%	ETB 345.00
	Tools		ETB 4 600.00	20%	ETB 920.00
				Total Annual Depreciation	<b>ETB 2 990.00</b>
Operation & Maintenance				Annual O&M	Annual Cost
	Fattening Pen		ETB 11 500.00	5%	ETB 575.00
	Water Storage		ETB 23 000.00	2%	ETB 460.00
	Feed Storage		ETB 6 900.00	5%	ETB 345.00
	Tools		ETB 4 600.00	20%	ETB 920.00
				Total Annual O&M	<b>ETB 2 300.00</b>
Licenses					ETB 500.00
Vet Fees					ETB 2 000.00
Total Annual Overheads					<b>ETB 7 790.00</b>
ANNUAL GROSS MARGINS					
	2 CYCLES @	77697.5	PER CYCLE		ETB 155 395.00
Less			ANNUAL OVERHEADS		ETB 7 790.00
			ANNUAL PROFIT		<b>ETB 147 605.00</b>
			PROFIT PER PERSON DAY		<b>ETB 205.01</b>

## Annex VII Monitoring & Evaluation

### A. Objective of the technical annex

1. The objective of this technical annex is to evaluate the implementation of the PASIDP II monitoring and evaluation system, with emphasis on the coordination of reporting and the efficiency of the data management (collection and analysis) system. It also examine M&E manual completeness and implementation performance and overall M&E data ability to inform programme management. It also review adequacy of outcome indicators that need to be tracked to ensure programme development objectives are underway to be achieved. This technical annex also look in to the status of baseline study that make-up part of the M&E system.

### B. Findings and way forward

2. **M&E system.** The M&E system in nutshell is at infant stage. M&E system is not yet in place to systematically monitor programme activities and outputs delivery and then also to monitor and evaluate the track towards achievement of programme outcomes and impacts. Output and outcome indicator tracking system has not yet established which would serve as MIS for informed decision. It requires significant attention from the programme management team to play its role to collect critical data to track programme implementation and inform management.
3. Secondly, the mission noticed that M&E staffs are not yet placed in some regional PCMUs. Programme woreda focal persons are not yet sensitized on programme required M&E data for appropriate upward data reporting. This is a critical challenge. Accordingly, it is a priority requirement that M&E staff position are need to be filled at each RPCMU and sensitization on programme M&E system need to be undertaken in particular with programme woreda focal persons and all M&E staff in general.
4. Basically, appropriate M&E starts from appropriate preparation of AWPB. Review of AWPB January 2017 to June 2018 (18 months) indicates that planning's are not appropriately aligned with programme implementation as stipulated at design. Although the work planning attempt to spell out activities as stipulated at design, however, aligning budget with specific activity with appropriate budget labelling is limited on AWPB, which result in limited coherence in AWPB and implementations. Subsequently, implementation focused mainly on investment in agriculture component of the programme, as also witnessed on the field visits. The critical components under sub-component B which include market linkage development, sustainable watershed management, agricultural finance facilitation, WUA capacitation, innovations and support on agronomic practices are not appropriately addressed on the AWPB and consequently are missing on implementations. It was observed that AWPB preparation mainly follows top-down approach, while it should have followed bottom-up approach as well. RPCMU should make scheme-based planning with the coordination of Woreda focal person, WUA committee members and overall programme clientele HHs.
5. Moving forward, it will be crucial that all these aspects are interlinked and that the various actors are coordinated in an effective way to ensure that the programme's clients receive the services they require to operate successfully. As a means to achieve this, it has been agreed to prepare scheme-based comprehensive timelines for all critical activities, so as to ensure that all actors involved sequence their activities and collaborate effectively to achieve the programme's outcomes at client level.
6. **Baseline study.** Baseline study is the critical component of the M&E system that will provide baseline information so as to measure if programme development objectives are achieved either at midline or end line. It should be completed before programme clients start to benefit from the interventions. At current status, recruitment of a consulting firm to undertake the assignment is delayed. It has been agreed with PCMU to expedite the process. Secondly, it is

critical to note that the baseline study need to get TA support from IFAD to make sure that all baseline indicators are captured as per the log frame of the programme and appropriate and usable baseline data is collected and analysed.

7. **M&E Manual.** The mission reviewed the M&E manual prepared by programme implementation team. The mission acknowledged the efforts of the programme management team both at federal and regional level to prepare a comprehensive M&E manual, which mainly was based on a consultation of all implementation partners. The manual particularly captures M&E systems institutional arrangement in a logical manner (where sensible timeframe of reporting's are also noted). Terms and idioms definitions are rightfully captured. However, while zooming in to the manual, the mission noticed significant omission in the manual that actually need to be there to make it a guiding-usable manual, with a focus to support manual audiences of all M&E staff and programme implementation team.
8. Particularly, the mission has identified that M&E manual omits critical data collection templates, which would have key indicators to monitor programme implementation on activities, outputs, outcome and impacts especially at bottom of programme implementation (scheme level). Then, also an aggregation MIS system that could be analysed and inform decision at programme level and also at specific programme implementation locality. Subsequently, it has been agreed with PCMU to revisit the M&E manual to include critical template that support M&E system for efficient and effective data reporting and analysis. Suggested template of performance indicator to be monitored at scheme level on quarterly, semi-annually and annually and overall programme results tracking tool is attached on separate excel sheet.
9. Furthermore, the mission has identified that IFAD's RIMS indicators are not yet identified and included in the manual. Such that, it has been agreed with PCMU to identify IFAD's RIMS indicators that are relevant with the programme, particularly with the new IFAD's new RIMS indicators, with TA support from IFAD. Given new M&E staffs are engaging in the assignment, particularly at RPCMU level, and new IFADs RIMS indicators are being introduced, it is vital to provide sensitization workshop to M&E staff of the programme at different levels of reporting.

## Annex VIII Social, Environmental and Climate Assessment Procedures

### 1. Preamble

The project has been classified as Category A under IFAD's SECAP, because during project identification and preparation it was envisaged that there would be potential issues involving the construction of dams with dam walls greater than 15m or storage capacities exceeding 3 million m<sup>3</sup>, resettlement and economic displacement or loss of environmental/ecological services in some of its irrigation sub-projects. However, as a result of consultations with the PCMU, it was decided that the implementation of Category A projects would involve technical, economic, environmental and social complexities that would require additional time, financial resources and technical input, and therefore PASIDP II would focus only on Category B and lower category projects.

Overall, PASIDP II has made significant progress in embracing SECAP requirements. However, difficulties in hiring qualified Environmental and Social Safeguards Specialists have set progress back somewhat in that this element of the Programme is lacking technical guidance at the Federal level. Despite this, the Regional Safeguards Specialists are to be commended for taking the initiative to train woreda and kebele teams in safeguards requirements, and reviewing ESIA reports/ESMPs.

### 2. Implementation of SECAP

The ESMF has proposed various trainings in order to ensure that SECAP requirements are incorporated during scheme identification, selection, design and implementation. These training requirements have also been described in detail in the PIM.

Training in the implementation of safeguards requirements at Federal and Regional level has not yet been undertaken as the Federal level Environmental Safeguards Specialist and Social Safeguards Specialists have not yet been recruited. It is expected that these specialists will be in place by end July 2017, and once they are in place, IFAD will make arrangements to carry out training.

During this mission, it was noted that training is particularly required in the following areas:

Topic	Sub Topics	Target Audience
Screening	Tier 1 – Eligibility Screening (TOT)	FPCMU Specialists RPCMU Specialists Rolled out to: Kebele Technical Team Kebele DA
	Tier 2 – Environmental and Social Concerns screening Risk categorization (TOT)	FPCMU Specialists RPCMU Specialists Rolled out to: Woreda FP Woreda Environmental Team WLTT
Scheme characteristics	Key aspects of scheme location, components and characteristics, associated infrastructure, etc which enable understanding of types of potential impacts	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant
National and international legislation, regulations and safeguard policies,	Relevance to project activities	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant



Stakeholder engagement	Consultation, engagement, communication and feedback Reporting on stakeholder consultations	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
FPIC and disclosure process.	Documentation of consultation /engagement and disclosure processes	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
Environmental and social baselines	Critical data requirements (eg. hydrology, water resources, environmental flow, affected households)	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
Impact analysis	Impact identification: cause, pathway, receptor approach for typical major impacts Assessing significance of impacts Linking screening issues to impact identification	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
Physical/economic displacement	Quantification of affected households, assets and property. Compensation requirements	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
Cumulative and synergistic impacts	Developments in project area of influence that could have adverse or beneficial consequences for the project	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant	Safeguards Safeguards
Impact mitigation	Mitigation hierarchy Typical mitigation measures for major impacts	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors	Safeguards Safeguards
ESMP	Preparation and implementation	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors	Safeguards Safeguards
Monitoring	SMART indicators, monitoring means and reporting	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors	Safeguards Safeguards
Occupational health and	Importance of enforcement	FPCMU	Safeguards

safety	during construction and operation	Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors
Grievance mechanisms	Access to mechanism, reporting and resolution, and communication	FPCMU Specialists RPCMU Specialists Rolled out to: Woreda FP, Worede SC Woreda Environmental Team
Contractual obligations	Contractual clauses, MOUs	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors
Budget implications	Estimating cost of mitigation Inclusion in AWP	FPCMU Specialists RPCMU Specialists Consulting engineers/ESIA Consultant Contractors

### 3. Strengthening Inter-Agency Cooperation at Woreda Level

To strengthen inter-agency cooperation at the woreda level, Paragraph 74 of the PIM will be replaced with the following:

74. The WTC will be responsible for providing technical on-site support in implementation of Programme interventions in target Kebeles to ensure that the Programme is implemented appropriately and in a coherent manner. The WTC will:

- Facilitate their respective Kebeles in identification of priority interventions in accordance with agreed regional priorities and overall Programme approach and strategy for planning and prioritization of interventions;
- Prepare Woreda AWPBs and submit to zonal Technical committee;
- Supervise programme activities and technical backstopping;
- Ensure the key technical personnel – at a minimum the irrigation engineer, irrigation agronomist, environmental protection expert, cooperatives expert – visit the scheme site and farmers every month during construction;
- Ensure that all WTC members visit the scheme site and farmers every 2 months during scheme operation;
- Prepare monthly and quarterly reports, describing technical, marketing, financial, environmental and social challenges and how these have been resolved, as well as any successful interventions;
- Submission of monthly and quarterly reports to zonal coordination office;
- Develop capacity of farmers' organizations at grassroots level, such as IWUAs and cooperative societies, to enhance their technical capacity and management skills;
- Convene annual Woreda implementation Review Meetings (WRM), that will bring together implementing agencies from all Kebeles, value chain partners and other donor financed projects to reflect on Programme implementation progress, learn and share best

practices/innovations, discuss implementation issues and challenges, and build partnerships.

The capacity of Woreda will be strengthened based on capacity needs assessment.

In addition, Paragraph 78 will be replaced with the following text:

**78. Woreda Focal Person (WFP)** – The woreda focal person has the overall responsibility for coordinating woreda project activities and will ensure that the proposed project is executed in accordance with the plan. The woreda focal person through the woreda agriculture and natural resource office will be responsible for overall project coordination, supervision, backstopping and advising all actors and stakeholders at woreda level. The Woreda Agriculture and natural resource office will assign the relevant focal person. The WFP will:-

- Identify trainings needs and arrange training program to Woreda experts and stakeholders, kebele and DAs who are associated with the project implementation;
- Report to the Regional Programme coordination and management unit and prepare annual work plan and budget and follow its implementation;
- Identify schemes in consultation with communities, kebele administration and DAs, and facilitate with concerned partners to conduct survey, preliminary and feasibility studies;
- Assist the Woreda Environmental Expert to carry out Tier 2 Screening for Environmental and Social Concerns as required by the ESMF;
- Prepare agricultural development plan for each PASIDP II schemes with detailed cost estimates and facilitate their implementation;
- Establish linkage with respective agricultural research institute and facilitate setting up of the FRGs for each PASIDP scheme;
- Provide and supply materials and inputs for conducting action-oriented agricultural activities in all scheme areas and evaluate their impacts;
- Facilitate community mobilisation and organise irrigation water user associations for each scheme and facilitate training;
- Facilitate IWUA scheme agreement and securing them water use certificates;
- Facilitate the project beneficiaries get first/second level land use certificates in collaboration with land administration and environmental protection office;
- Facilitate the study and design as well as scheme construction and access roads of irrigation schemes and ensure IWUAs active participation and organise members for effective O&M;
- Facilitate monthly and bi-monthly monitoring of schemes during construction and operation respectively, ensuring that relevant WTC members are able to execute their monitoring responsibilities;
- Responsible to provide relevant data and information from grass root level, and prepare regular and periodic progress reports to RPCMU;
- And any other tasks as may be required by the Regional Programme Coordinator.

#### **4. Farmers Participation in Scheme Development**

A key finding of the mission was that the participatory aspects of PASIDP have not been adequately pursued in PASIDP II processes. The following text should replace Paragraph 115 of the PIM.

**115. Consultation with IWUA and Farmers:** In order to ensure that participatory aspects of PASIDP II are fully embedded into programme activities, farmers need to be involved at all stages of scheme development/watershed conservation. This will lend to farmers “owning” the scheme. When indicative plans and scheme estimates are ready, these would be further discussed with the IWUA and the kebele administrations in order to obtain their views and opinion on the proposed arrangement for the implementation of the scheme. Any modifications needed and the suggestions made by the IWUA would be incorporated in the plan and estimates. At this point of time, the IWUA would also be intimated about their participation and mode and type of participation and their arrangements for collaboration. The table below provides a guideline indicating areas where and how farmers should be involved during the PASIDP II processes.

Scheme Development Phase	Key Inclusion Areas	Examples of type of information to be obtained from or imparted to farmers
Scheme initiation, formulation, identification	Establishing farmers expectations	<ul style="list-style-type: none"> <li>What crops do they want to grow?</li> <li>How much are they expecting to produce?</li> <li>Do they want to grow these crops for their own consumption or for sale?</li> <li>What are they able to do for the project?</li> <li>What do they expect the project to do for them?</li> </ul>
	Scheme site selection	<ul style="list-style-type: none"> <li>Why this site?</li> </ul>
	Watershed site selection	<ul style="list-style-type: none"> <li>Why this site</li> </ul>
Reconnaissance study	Technical screening	<ul style="list-style-type: none"> <li>How much irrigation experience do farmers have – traditional/improved?</li> <li>Do they know the costs of inputs?</li> <li>Where will they get inputs from?</li> <li>Where will they sell their produce (markets)?</li> <li>Have they thought about how they will sell their crops?</li> <li>Do they know the cost of transport to markets?</li> </ul>
	Environmental and Social Screening	<ul style="list-style-type: none"> <li>What are the main environmental and social issues experienced by the farmers eg. erratic rainfall, excessive flooding, erosion, poor access to social amenities ?</li> <li>What types of [government] projects are being undertaken in or near the project area</li> <li>How many droughts have they experienced in the past 20 years?</li> <li>How many floods have they experienced in the past 20 years?</li> </ul>
Feasibility	Identification of markets, development of marketing strategy	<ul style="list-style-type: none"> <li>Farmers understanding of these aspects</li> </ul>
	Identification of input sources and establishing costs of inputs	
	Development of financial/business model	
	Identification of major environmental and social adverse and beneficial impacts as input to ESIA study	<ul style="list-style-type: none"> <li>Farmers' perceptions of positive and negative environmental and social impacts due to the scheme activities and associated activities (eg. sourcing materials, access road improvement, etc)</li> </ul>
	Development of scheme components	<ul style="list-style-type: none"> <li>Farmers understanding of all scheme components</li> <li>Farmers preferences on scheme</li> </ul>

		and associated infrastructure siting and layout
	Preliminary identification of scheme affected households	<ul style="list-style-type: none"> <li>How many farmers will participate – disaggregated by sex</li> </ul>
	Establishing extent of watershed rehabilitation activities	<ul style="list-style-type: none"> <li>How many micro-catchments can be practically covered</li> </ul>
Design	Recommendations for design (eg. Location of intake, headworks, canal route, etc)	<ul style="list-style-type: none"> <li>Farmers review of final design, and subsequent approval.</li> </ul>
	Confirming scheme affected households	<ul style="list-style-type: none"> <li>Final numbers of farmers participating in the scheme</li> </ul>
	Ensuring environmental and social impacts are addressed through appropriate and acceptable/agreed mitigation measures	<ul style="list-style-type: none"> <li>Farmers review recommendations for, and agree to, environmental and social mitigation measures</li> </ul>
Construction	Materials sourcing	<ul style="list-style-type: none"> <li>Assistance in locating local materials sites and sources</li> </ul>
	Labour for scheme construction and watershed conservation activities	<ul style="list-style-type: none"> <li>Provision of labour</li> <li>Mobilising local community members to assist construction activities</li> </ul>
	Monitoring	<ul style="list-style-type: none"> <li>Ensuring contractors adhere to agreed scheme design</li> <li>Reporting environmental/social impacts</li> </ul>
Implementation	Crop production	<ul style="list-style-type: none"> <li>Farming</li> </ul>
	Monitoring	<ul style="list-style-type: none"> <li>Water availability/river flow</li> <li>Crop production/yields</li> <li>Input usage (volumes of inputs used)</li> <li>Reporting environmental and social impacts</li> </ul>

### Enhancing Community Participation in PASIDP II

It was also noted that communities also felt that they had been excluded from potential development benefits expected from the project. The following text should be inserted below Paragraph 115:

**116. Consultations with Communities:** It is also important that communities to which the farmers belong are involved in scheme development in order that the communities develop positive attitudes towards the schemes. Below are suggestions for topics for consultation with the communities during the various phases of scheme development.

Scheme Development Phase	Topics for Consultation with Project Communities
Scheme initiation, formulation, identification	Establish community expectations
	Views on scheme site selection
	Views on watershed site selection
Reconnaissance study	Technical concerns – as input to technical screening process
	Environmental and social areas of concern - as input to screening process
Feasibility	Perceptions of major environmental and social adverse and beneficial impacts as input to ESIA study
	Description of all scheme components
	Preliminary identification of scheme affected households who are not included in scheme (with assistance from Kebele DA)

	Description of watershed rehabilitation activities, agreement on extent of watershed rehabilitation/conservation activities to be undertaken
Design	Description of scheme design (eg. Location of intake, headworks, canal route, etc)
	Confirming scheme affected households not included in the scheme (with assistance from Kebele DA)
	Where relevant to communities, participation in monitoring environmental and social impacts to ensure they are addressed through appropriate and acceptable/agreed mitigation measures
Implementation/ Construction	Materials availability and sourcing
	Provision of labour for scheme construction and watershed conservation activities
	Other services that can be provided by the community
	Monitoring environmental/social impacts and reporting adverse impacts to kebele
Handover/ Provisional / Final	Spin off opportunities

### SECAP compliance checklist for no objection

S.N.	Compliance Criteria	YES	NO	Details
1.	Has Tier 1 Screening been carried out to determine whether the project is eligible under PASIDP II?			
2.	Has Tier 2 Screening been carried out to identify potentially significant adverse environmental or social impacts and risks?			
3.	Indicate key potentially adverse impacts and risks identified.			
4.	Has the FPIC process been followed during project identification and preparation?			
5.	Has the FPIC process been documented?			
6.	Has the project been screened for climate risk? Indicate risk category [H, M,L]			
7.	Has an ESIA and/or ESMP been prepared for the study?			
8.	Have precautions, mitigation measures and other studies been suitably identified, described and budgeted for to avoid or mitigate against any adverse impacts/risks?			
9.	Has a RAP been prepared?			
10.	Has a Pesticide Management Plan been prepared?			
11.	Have measures been proposed to ensure soil conservation/nutrient management?			
12.	Have climate resilience measures been considered?			
13.	Have the safeguards documents (ESMP, RAP, PMP) been disclosed at Regional, Woreda and Kebele level?			
14.	Have been approved by the environmental authority?			
15.	Is a Grievance Redress Mechanism in place?			
16.	Does the agreement with the contractor specify good labour and working conditions?			