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Report No: 37224 - ET

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 118.5 MILLION
(US\$ 175 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

PRODUCTIVE SAFETY NET APL II PROJECT

IN SUPPORT OF THE SECOND PHASE

OF THE PRODUCTIVE SAFETY NET PROGRAM

December 11, 2006

Human Development III
Country Department AFCE3
Africa Region

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CURRENCY EQUIVALENTS

Exchange Rates (Effective October 31, 2006)

Currency Unit = Ethiopia Birr (ETB)
 ETB 8.75 = US\$1
 US\$ 1.4779 = SDR 1

FISCAL YEAR
 Ethiopian Fiscal Year (EFY)
 July 8 – July 7

EFY99 ≈ IDA FY07
 EFY00 ≈ IDA FY08
 EFY01 ≈ IDA FY09

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan	IMF	International Monetary Fund
BDA	Budget Disbursement and Accounting	KAC	Kebele Appeals Committee
BOARD	Bureau of Agriculture and Rural Development	KFSTF	Kebele Food Security Task Force
BOFED	Bureau of Finance and Economic Development	MDG	Millennium Development Goals
CERF	Central Emergency Response Fund	MDTF	Multi-Donor Trust Fund
CFSTF	Community Food Security Task Force	MEGS	Maharashtra Employment Guarantee Scheme
CGAP	Consultative Group for Assistance to the Poor	M&E	Monitoring and Evaluation
CSA	Central Statistical Authority	MFIs	Micro-Finance Institutions
CSRP	Civil Service Reform Program	MOARD	Ministry of Agriculture and Rural Development
CIDA	Canadian International Development Agency	MOFED	Ministry of Finance and Economic Development
CPAR	Country Procurement Assessment Report	MOU	Memorandum of Understanding
DA	Designated Account	MT	Mid Term
DCI	Development Cooperation of Ireland	NGO	Non-Governmental Organization
DFID	UK Department for International Development	NTEAP	Nile Transboundary Environmental Action Project
DPPA	Disaster Prevention and Preparedness Agency	OFAG	Office of the Federal Auditor General
DS	Direct Support	OFSP	Other Food Security Program
EA	Environmental Assessment	PIM	Program Implementation Manual
		PASDEP	Program for Accelerated and Sustained Development to End Poverty

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EC	European Commission	PCDP	Pastoral Community Development Project
EDRP	Emergency Drought and Recovery Project	PCN	Project Concept Note
EFY	Ethiopia Fiscal Year	PDO	Project Development Objective
EIA	Environmental Impact Assessment	PEFA	Public Expenditure and Financial Accountability
EPA	Environmental Protection Agency	PER	Public Expenditure Review
EMCP	Expenditure Management and Control sub-Program	PFM	Public Financial Management
ESMF	Environmental and Social Management Framework	PSCAP	Public Sector Capacity Building Program
FAO	Food and Agriculture Organization	PSNP	Productive Safety Net Program
FFSSC	Federal Food Security Steering Committee	QER	Quality Enhancement Review
FSCB	Food Security Coordination Bureau	RCB	Rural Capacity Building Project
FSP	Food Security Program	RFSCO	Regional Food Security Coordination Office
FSTP	Food Security Task Force	RFSSC	Regional Food Security Steering Committee
FY	Fiscal Year	RRM	Rapid Response Mechanism
GDP	Gross Domestic Product	RFWFU	Regional Public Works Focal Unit
GEF	Global Environment Facility	SIL	Specific Investment Loan
GTZ	German Agency for Technical Cooperation	SDPRP	Sustainability Development and Poverty Reduction Program
GPS/GIS	Global Positioning System/Geographic Information System	SDR	Standard Drawing Rights
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome	SLM	Sustainable Land Management
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICAS	Interim Country Assistance Strategy	WFP	World Food Program
ICB	International Competitive Bidding	WFSD	Woreda Food Security Desk
IDA	International Development Association	WFSTF	Woreda Food Security Task Force
IFR	Interim Financial Monitoring Report	WOFED	Woreda Office of Finance and Economic Development
		WRDO	Woreda Rural Development Office

Acting Vice President:	Hartwig Schafer
Country Director:	Ishac Diwan
Sector Manager:	Laura Frigenti
Task Team Leader:	Trina Haque

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ETHIOPIA
Productive Safety Net APL II

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ETHIOPIA
PRODUCTIVE SAFETY NET PROGRAM APL II
PROJECT APPRAISAL DOCUMENT

AFRICA

AFTH3

Date: December 11, 2006	Team Leader: Trina S. Haque
Country Director: Ishac Diwan	Sectors: Other social services (98%); Central government administration (1%); Sub-national government administration (1%)
Sector Director: Yaw Ansu	Themes: Social safety nets (P); Nutrition and food security (P); Vulnerability assessment and monitoring (S); Other social development (S)
Sector Manager: Laura Frigenti	Environmental screening category: Partial Assessment
Project ID: P098093	
Lending Instrument: Adaptable Program Loan	

Project Financing Data			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
For Loans/Credits/Others: Total Bank financing (US\$ m.): APL II 175.00; APL III 175.00 Proposed terms:			
Financing Plan (US\$ m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	2.00	0.00	2.00
INTERNATIONAL DEVELOPMENT ASSOCIATION – GRANT	173.00	2.00	175.00
DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)	192.60	2.00	194.60
EUROPEAN COMMISSION	193.60	2.00	195.60
IRISH AID (DCI)	18.00		18.00
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)	38.00		38.00
CIDA	14.40	-	14.40
WORLD FOOD PROGRAM	26.60	-	26.60
OTHER	53.00	3.50	56.50
FINANCING GAP	194.60	-	194.60
TOTAL.	905.80	9.50	915.30
Borrower: Federal Democratic Republic of Ethiopia			
Responsible Agencies: Food Security Coordination Bureau of the Ministry of Agriculture and Rural Development (MOARD); Ministry of Finance and Economic Development; Natural Resources Department of MOARD; Disaster Prevention and Preparedness Agency (DPPA)			

Estimated disbursements (Bank FY/US\$ m)									
FY	07	08	09	10	0	0	0	0	0
Annual	50.00	75.00	35.00	15.00	0.00	0.00	0.00	0.00	0.00
Cumulative	50.00	125.00	160.00	175.00	0.00	0.00	0.00	0.00	0.00
Project implementation period: Start January 31, 2007 End: December 31, 2009									
Expected effectiveness date: January 31, 2007									
Expected closing date: June 30, 2010									

Does the project depart from the CAS in content or other significant respects? <i>Ref. PAD A.3</i>	[] Yes [X] No
Does the project require any exceptions from Bank policies? <i>Ref. PAD D.7</i>	[X] Yes [] No
Have these been approved by Bank management?	[X] Yes [] No
Is approval for any policy exception sought from the Board?	[] Yes [X] No
An exception to OP 10.02 was sought to proceed with Board presentation of the proposed Project. The waiver has been granted.	
Does the project include any critical risks rated "substantial" or "high"? <i>Ref. PAD C.5</i>	
Two critical risks are rated "substantial".	
<ul style="list-style-type: none"> Existing and new donors will not be in a position to confirm their long-term commitment and financing to enable the Program to continue assistance to at least an estimated 7.2 million target beneficiaries over the next year. Limited capacity of Regions/woredas impedes the efficiency and effectiveness of the program. 	[X] Yes [] No
Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD D.7</i>	[X] Yes [] No

Project development objective <i>Ref. PAD B.2, Technical Annex 3</i>
The objective of the proposed PSNP APL II Project is to continue to improve the efficiency, effectiveness and fairness of the program in terms of ensuring; (i) timely, well-targeted transfers, (ii) the quality and environmental impact of the public works, (iii) the complementarity between the PSNP and other food security interventions, (iv) the local accountability dimensions of the program, and (v) Ethiopia's ability to respond to drought.
Project description <i>Ref. PAD B.3.a, Technical Annex 4</i>
Component 1: Safety Net Grants. This component will provide grants (i) to households whose adults participate in labor-intensive public works subprojects, and (ii) for direct support to households who are labor poor and cannot undertake public works.
Component 2: Drought Risk Financing. This Component aims to provide timely resources for <i>transient</i> food insecure households in response to shocks. It consists of a <i>contingent grant</i> to provide financing for scaling-up activities under Component 1 in response to localized or intermediate drought events.

Component 3: Institutional Support. This component will strengthen all aspects of program implementation, including capacity building at community level, monitoring and evaluation, strengthening transparency and accountability measure, and carry out of several studies, pilots, and assessments.

Which safeguard policies are triggered, if any? *Ref. PAD D.6, Technical Annex 11*

Three safeguards are triggered. (i) Although a large number of public works will be implemented, they are generally micro-level, and it is expected that any negative impacts will for the most part be site-specific; few if any of the impacts would be irreversible, and in most cases mitigating measures can be readily designed. The EA Policy OP 4.01 is triggered, and the project is designated Category 'B' Also under OP 4.01, in case the public works should include clinic construction or rehabilitation, a Medical Waste Management Guide for Rural Health Clinics is required to be developed and disclosed. This has been done. (ii) The Pest Management policy OP 4.09 is triggered as there is a possibility of small-scale irrigation projects adopting the use of pesticides. In such cases, the policy requires the development and disclosure of Integrated Pest Management guidelines, which has been done. (iii) The International Waterways policy OP 7.50 is triggered because some of the public works are likely to be small-scale irrigation projects located in watersheds of three international waterways. For APL I, Government and the Bank notified the concerned countries in accordance with this policy, covering the five-year period of APL I and APL II. Since water abstraction rates are within the notified levels, there is no need for further notification for APL II.

The ESMF public works selection and screening procedures incorporate measures for avoiding cultural heritage sites, so OP 4.11 is not triggered.

Significant, non-standard conditions, **if any**, for:
Ref. PAD C.7

Loan/credit effectiveness:

Conditions for Effectiveness

- Establishment of Public Works Focal Unit in the Natural Resources Department in each Region, and at the Federal Level; ensuring at least two technical staff and the Unit head are in place in the unit; and agreement of budget allocation for the unit from PSNP resources.
- The Regional governments to issue directives to the woredas to re-inforce the grievances and redress system for the PSNP at kebele and woreda levels, by instituting adequate documentation and follow-up, as well as reporting to the Regional level.
- The Recipient has furnished to the Association a satisfactory final report in respect of the 2005 PSNP annual audit, together with a remedial action plan, if needed, both satisfactory to the Association.

Conditions of Disbursement

- For Component 2, submission to IDA of a Drought Risk Financing Manual satisfactory to IDA indicating the criteria to be used, institutional responsibilities, contingency planning process, and timeline for determining resource allocations to program woredas; and a workplan satisfactory to IDA showing the specific woredas and number of beneficiaries by woreda to be covered with these resources.

Covenants applicable to project implementation:

April 2007 Semi-Annual Review

- Government FSP budget and PSNP budget, disbursement data and beneficiary numbers by region and woreda to be publicly disseminated at woreda, Regional and Federal levels.
- PSNP objectives, rules, and procedures to be disseminated at kebele level via radio, posters, etc.
- Develop and agree an empirical evidence-based operational definition of household graduation out of chronic food insecurity
- Review implementation of recommendations from the Direct Support study
- Semi-annual Public Works Review completed and recommendations identified.
- Implementation of measures to align the PSNP budget cycle with Ethiopian fiscal management and planning calendars.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

September 2007 Semi-Annual Review

- Semi-annual Public Works Review completed and recommendations identified.
- Analysis by CGAP of FSP micro-finance dimensions completed and findings discussed at a stakeholder forum organized by the FSCB.
- Based on agreed definition and indicators of graduation, develop Woreda/Regional guidance.
- An assessment completed of existence, quality and use of PSNP kebele watershed management plans in the form of maps.
- Beneficiary assessment completed regarding satisfaction with PSNP and OFSP services.
- Study completed on potential for market linkages between PSNP and grain markets in cash grant-receiving woredas.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

April 2008 Semi-Annual Review

- Continued dissemination of Government FSP budget and PSNP budget, disbursement data and beneficiary numbers by region and woredas.
- MOARD (Department of Natural Resources) to complete pilot on GPS/GIS-based watershed maps in PSNP areas.
- Semi-annual Public Works Review completed and recommendations identified.
- Follow-up to baseline household survey completed and data analyzed.
- A technical audit to be completed of the kebele watershed management plans to assess quality and, where necessary, to provide feedback on corrective actions.
- Verification that all Program woredas have developed drought contingency plans in kebeles implementing the PSNP as well as those that are not.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

September 2008 Semi-Annual Review (Mid-Term Review)

- Follow-up beneficiary assessment completed regarding satisfaction with PSNP and OFSP

services.

- Government to develop a paper on the long-term institutional framework for the Direct Support sub-component.

April 2009 Semi-Annual Review

- FSP and PSNP resource allocation, disbursement data and beneficiary numbers by region and woreda to be publicly disseminated.
- Semi-annual Public Works Review completed and recommendations identified.
- Further follow-up to baseline household survey completed and data analyzed.

September 2009 Semi-Annual Review

- MOARD to complete GPS/GIS-based watershed maps in PSNP areas.
- Semi-annual Public Works Review completed and recommendations identified.

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and Sector Issues

1.1 Poverty, Vulnerability and Food Insecurity

1. *Hunger and vulnerability.* Since the mid 1980s the images of severe drought and large-scale starvation have become inexorably linked to Ethiopia. The Poverty Assessment for Ethiopia (World Bank 2005) indicates that in 1999/00, 58 percent of the rural population lived below the poverty line, while 38 percent of rural households were extremely poor and lived below the food poverty line. Most of these households are engaged in subsistence farming on small plots of degraded land, subject to the vicissitudes of the weather. On a daily basis they manage hunger, extreme hardship, and multiple sources of uncertainty.

2. Despite some recent improvement in aggregate production due to expanded cultivation of marginal lands and fertilizer use, there has been a secular decline in per capita food production in Ethiopia. High population growth rates have contributed to a decline in farm sizes, while environmental degradation has deepened. Climatic variability is also high. Rainfall data for the period 1967 to 2000 indicate that annual variability in rainfall across different zones in Ethiopia ranged from a low of 15 percent to a high of 81 percent – among the highest in the world. The larger the coefficient of variation in rainfall, the lower is household income and consumption (Poverty Assessment, World Bank 2005). In addition to the failure of the rains, health risks – including both malaria and HIV/AIDS – exacerbate the vulnerability of the poor, driving many thousands of people into poverty traps.

3. *Emergency aid has saved lives.* It is in this context that every year for over two decades through 2004 the Government of Ethiopia has had to launch international emergency appeals for food aid. This annual emergency assistance was channeled to meet the consumption needs of both chronic and transitorily food insecure households¹. Although this humanitarian assistance was substantial in the aggregate (estimated at about US\$265 million a year on average between 1997-2002) and saved many lives, evaluations have shown that it was unpredictable for both planners and households, often arriving late relative to need. The delays and uncertainties meant that the emergency aid could not be used effectively and did little to protect livelihoods, prevent environmental degradation, generate community assets, or preserve household assets (physical or human capital). As a result, despite the large food aid inflows, household-level food insecurity has remained both widespread and chronic in Ethiopia. In fact there has been an *increasing trend in chronic food insecurity* in the aftermath of repeated droughts as vulnerable households fail to manage their effects and slide deeper into poverty. As part of the same phenomenon rural growth has also stagnated as families repeatedly engage in “catch-up” and try to rebuild lost livelihoods.

4. *Reforming the system.* Given these shortcomings of the emergency aid regime, the Ethiopian Government decided that an alternative system was needed to support the needs of chronic, predictably food-insecure households, as well as to address some of the major underlying causes of food insecurity. In 2005 it started implementation of a major new program which had been endorsed at the G-8 Summit of June 2004 as a major element of the effort to end famine in the Horn of Africa, **the Productive Safety Net Program (PSNP)**. The PSNP replaced the emergency humanitarian appeal system as the chief instrument for assisting about 5 million chronically food-insecure people in rural Ethiopia initially. It was scaled up to reach 7.23 million people in 2006. The PSNP provides resources to chronically food insecure households via two means: via payment to able-bodied members for

¹ Food insecurity is defined as a lack of access, at all times, to enough food for an active, healthy life. Chronic food insecurity refers to the persistence of this situation over time, even in the absence of idiosyncratic or covariate shocks.

participation in labor-intensive public works activities and via direct grants to labor-poor, elderly or otherwise incapacitated households. Development agencies including the World Bank have worked together to support the design and implementation of the PSNP under Ethiopian Government leadership.

1.2 Trends in Environmental Degradation

5. Given its predominantly rural composition, the natural environment is central to the survival of Ethiopia's population. It provides not just for daily life, but acts as a principal source of household coping by providing extra cash income in times of stress. Not surprisingly, thus, the continued degradation of land is a key drag on both growth and poverty reduction prospects.

6. *Repercussions.* Ethiopia's once abundant forest cover is devastated. The land base has been damaged through erosion and degradation, land productivity has declined, and rainfall infiltration has reduced such that many spring and stream sources have disappeared or are no longer perennial. Rainfall runoff has increased and river spate flows have also increased, leading to severe flooding (e.g. Dire Dawa in July 2006). A 1986 FAO study estimated that gross erosion from cropland involves a loss of 2-3 percent of agricultural GDP per year. Moreover, although poor harvests in Ethiopia are often blamed on 'drought', very often this can be attributed more to poor management of available rainfall than to absolute shortfalls in rain. Thus land degradation is not just reducing the productivity of the land, it is also reducing Ethiopia's capacity to effectively use its abundant water resources. There is also a gender dimension: land degradation requires women to go further and further for fuel and water.

7. *Contributing factors.* The forces behind land degradation in Ethiopia are not new. Traditionally, people primarily occupied the highlands, above about 1500 m altitude, where rainfall is higher and diseases are less prevalent. Given the steep slopes and erodible volcanic soils, however, forest clearance for conversion to agriculture quickly leads to erosion, further impacted by high intensity rainfall, especially in the early season when the land cover is at its lowest. Institutional and policy issues, notably insecure land tenure and frequent land redistributions, have also discouraged investments in sustainable land management (SLM). The poorest of the poor have been squeezed onto the most marginal lands, often very steep lands previously under natural vegetation. Conversion of grazing land has increased livestock pressure on the remaining grazing areas, leading to further degradation.

8. *Early responses...* Concern over environmental degradation is also not new. During the 1980s under the Derg regime, the Government undertook an ambitious program of soil and water conservation throughout the highlands, through food for work. Some 590,000 km of bunds, over 1,000 gully check dams, afforestation, community forests, and area closures were reportedly implemented. Many of these land management efforts were destroyed by farmers, however, either soon after they were installed or at the collapse of the regime. The top down, imposed nature of these efforts, with little community participation, has been universally recognized as a cause of farmer resistance.

9. *... and new beginnings.* More recently there have been several positive developments. A new land use proclamation provides, *inter alia*, for security of land tenure (but not ownership or rights of sale) and imposes land management requirements on tenure holders (Box 1). There is also a much clearer understanding of the need to protect smallholder farmers as new farming approaches are promoted. For the average Ethiopian smallholder farmer, 'improved' land management practices and technologies are, first and foremost, considered in terms of risk, income, and survival, with adoption of innovations more likely to occur when the value-added and the process of managing down-side risks in the transition to new practices and technologies, are both addressed at the same time. Finally, the need for community ownership of land management initiatives through a micro-watershed approach is

widely acknowledged within and outside Government. The community-based micro-watershed management approach to land management, combined with consumption support to the household, has been piloted extensively through partnerships between the Government and WFP (MERET project), GTZ, and others. Guidelines on community-based watershed

Box 1: Changing Policy Framework for Land Management

Proclamation No. 456/2005: Rural Land Administration and Use Proclamation, enacted 15 July 2005 confirms ownership of rural land by the state, with indefinite tenure rights to land users, rights to 'property produced on his land', rights of inter-generational tenure transfer, rights to exchange land ('to make small farm plots convenient for development'), and some rights for leasing. Provision is made for the registration and certification of tenure rights, along with registration of current land use and fertility. There is reference to sustainable use of rural land and avoidance of land degradation, including defined obligations on tenure holders to sustain the land ('obliged to use and protect his land') with specific requirements defined according to slope, requirements for gully rehabilitation, restrictions on free grazing, and protection of wetland biodiversity (article 13).

management were developed from these pilot experiences and adopted in 2005 by the Ministry of Agriculture and Rural Development (MOARD). The World Bank, with support from the Global Environment Facility (GEF) is also engaged in preparation of a Sustainable Land Management Project to test the effectiveness of alternative approaches to achieve better environmental outcomes.

10. *Role of the PSNP* Within its geographical limitations the proposed second-phase of the PSNP represents a unique opportunity to contribute to environmental transformation by promoting, financing, and implementing SLM measures using a combination of community-based and science-based approaches at an unprecedented scale in Ethiopia. It is estimated that in 2006, PSNP public works were operational in almost a third of Ethiopian woredas (234 out of about 650), generating over 172 million person days of labor in 2006.

11. Most of these works – for which community members are paid – are focused on soil and water conservation activities, with associated voluntary community agreements on land management. The works have been found to bring demonstrable benefits to farmers from the conservation of moisture, which not only leads to visibly improved plant growth close to the bunds, but also to an increase in ground water recharge such that dry springs have started to flow again and local stream flows have increased. Finally, the PSNP works are based on the application of MOARD's Community-Based Participatory Watershed Development guideline, adopting micro-watershed management and extensive community consultation.

Table 1: Sample of Public Works Supported in 2005 Under the PSNP

Soil Bund construction (Km.)	10,320	Fruit seedling production (No.)	7,900
Stone bund construction (Km.)	244,673	Nursery site establishment (No.)	48
Pond construction (No.)	759	Seedling planting (No.)	17,228,942
Pond maintenance (No.)	18,958	Rural road construction (Km.)	6,160
Spring development (No.)	310	Rural road maintenance (Km.)	4,887
Spring Maintenance (No.)	1,545	School class room construction (No.)	756
Hand dug well construction (No.)	407	Elementary school maintenance (No.)	80
Area Closure (Ha.)	39,450	Health post construction (No.)	342
Small scale irrigation canal (Km.)	3,467	Farmer training centre construction (No.)	121

Source: FSCB Mid-Term Review Report, June 2006.

1.3 The Long Road to “Graduation”

12. A key goal of Ethiopia’s poverty reduction strategy is to enable chronically food insecure households to acquire sufficient assets and income to “graduate” out of food insecurity and improve their resilience to shocks. While this is a shared objective of Government and development partners, further analysis is required to build a common understanding of what strategies are required for different types of households in different localities, and what pace of improvements is feasible.

13. *Linkages between the PSNP and other food security interventions.* The Government has designed a series of complementary interventions known as the Federal Food Security Program (FSP). The federal budget component of the FSP, administered and coordinated at Federal level by the FSCB, is in the form of a federal grant provided to Regions to be spent on access to new land and other food security program (OFSP) activities which focus on household income generating packages often provided through credit. Since 2004/05 the Government has been allocating approximately US\$230 million per year for the FSP from its own resources. The PSNP component of the FSP is financed separately by a consortium of donors.

14. The federal budget component of the FSP and the PSNP are conceived to complement each other. Over the last two years the Government has made efforts to align the household-asset building component of the FSP and the PSNP in terms of targeting the same households with the aim of increasing opportunities for households to graduate out of food insecurity. The PSNP is designed to serve as the first rung of a “ladder” out of food insecurity and poverty. Once the beneficiary already has access to the PSNP and sufficient support to avoid asset depletion, they are also entitled to household packages and micro-finance under the FSP, the joint impact of which is expected to lead to increased household incomes and assets over time. Consequently the chronically food insecure household’s dependence on the PSNP is expected to decline over time.

15. While linkages between the Government’s FSP and the PSNP are being improved, there is still a significant way to go in achieving harmonization with other donor-financed food security interventions operating in the same localities. PSNP financing from individual development agencies are harmonized and pooled to finance a single Program led by the Government. Other food security or rural development projects outside the PSNP, however, are rarely coordinated at local implementation levels.

16. The necessity of establishing effective linkages is now recognized by all but still at a nascent stage. Some important initial steps have been taken. A joint analysis by CGAP of the micro-finance dimensions of the Government’s Food Security program and the IDA-financed Food Security Project (Cr. 3646-ET) is planned, with a view to improving consistency and integration of the two. Furthermore, a “donor mapping” exercise in the realm of rural development projects has also been completed recently

17. *Linkages to other sources of growth and services.* In addition to better linkages between the PSNP and food security initiatives, improved coordination between the PSNP and other sources of growth/basic rural services such as marketing or veterinarian services is also needed to generate greater network effects. If the links between the PSNP and the broader growth framework remain weak, the realized levels of macroeconomic growth and household-level graduation will also lag behind their potential. It is also necessary to establish a more integrated planning framework at woreda and Regional levels and better align the woreda budgeting and planning cycle with the PSNP planning cycle.

18. *Timelines for graduation.* A key threat to the goal of generating a virtuous cycle out of poverty and food insecurity is the possibility that rushed timelines or unsustainable

approaches may well lead to *increased* rather than reduced vulnerability of the household. A concern in the context of Ethiopia is that the current average size of the Government's FSP loans may be too large (at ETB 2000-5000 or US\$ 230-575 on average) and interest rates too high relative to the low levels of incomes of beneficiary households and the high risks they face. For many vulnerable households, these loans are daunting – seen as a liability that may increase their vulnerability should a drought or other shock strike (e.g. a cow dies). Another concern is that Government may set targets for household graduation that are overly ambitious in timeline and scale.

19. In mitigating these concerns, Government has already acknowledged the need to review the interest rate of the FSP loans and to address the risk factor in the program. It also envisages guaranteed access for chronically food insecure households to the PSNP for a number of years, which would encourage households to take on additional risk gradually (e.g. through micro-loans of increasing size). The Government is also in the process of developing an empirical evidence-based definition of graduation, status at baseline, and plausible scenarios for moving forward in a sustainable manner. What is clear even now is that sustainable improvements to households' income and asset base will require several years, as well as a more coordinated and integrated approach than at present.

20. *Access to new land.* A discussion of graduation out of food insecurity would be incomplete without reference to the Government's access to new land or resettlement program. This program, fully financed by Government from its own resources, has already resulted in over 170,000 households moving from farming marginal lands in the chronically food insecure areas to new, more productive lands. The program was assessed by the Bank in 2004 as being voluntary in design but with variable implementation. It experienced several difficulties, particularly in its early days, given the lack of preparedness in many of the receiving areas. More recently, according to the Government's own assessment in early 2006, over 130,000 of participating households have become self-supporting and the major part of the resettlement has been completed in some regions (e.g. Tigray). By design, the receiving localities are not chronically food insecure and hence, the PSNP does not operate in these specific areas. The Government is nevertheless committed to evaluating the implementation experience of the access to new land program prior to APL III, especially the implication of any return migration to areas where the PSNP is operational.

21. In conclusion, graduation out of food insecurity will require appreciation of Ethiopia-specific factors, sequences, durations, linkages, and treatment of risk. The approach is one of a "ladder" where the PSNP constitutes the foundation for the household, complemented by micro-finance and skills enhancement under the FSP as well as broader access to markets and services, all of which continues to be available to the household in the early stages of asset accumulation to prevent a premature slip back into insecurity and vulnerability.

1.4 Extending the Reforms: Scalability of the Safety Net

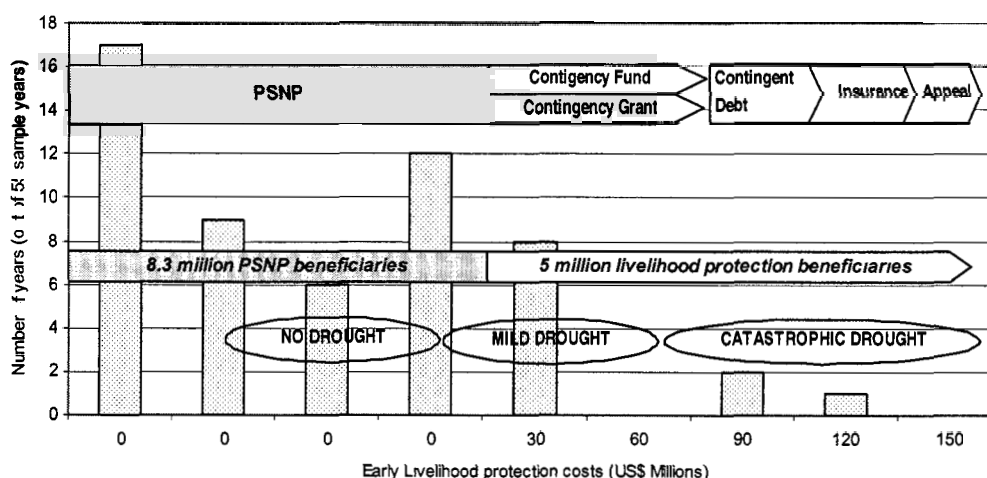
22. *The dynamics of destitution.* There is ample evidence that transient food-insecure households start managing an impending disaster relatively early, even before harvest failure. In the early stages coping strategies tend to involve less costly actions such as sale of non-productive assets or migration of family members. In later stages, however, having exhausted initial coping mechanisms, households are forced to sell productive assets or employ other costly coping strategies, such as removing children from school. Short-term shocks can, thus, have long-term consequences and lead to considerable setbacks to growth. Studies show that households that suffered substantially during the severe 1984-5 Ethiopian drought continued to experience 2 to 3 percent less annual per capita growth during the 1990s as compared with those who were not hit as hard. Repeated shocks followed by traditionally late or inadequate responses have also led to loss of livelihoods and increasing chronic food insecurity.

23. *Sustainability of the PSNP is itself contingent.* While the advent of the PSNP has offered a vehicle for timely livelihood protection for large numbers of the already chronically food insecure population, the “transiently” food insecure remain subject to the vagaries of the emergency relief system. This suggests that given the risk of transient food insecure households falling into destitution, the current partial reform of the emergency system in Ethiopia is not sustainable. Ethiopia is itself the proving ground for a number of financial innovations which can provide a more productive framework for response.

24. *Innovations.* In 2005 WFP and the Government demonstrated that it is feasible to use market mechanisms to finance catastrophic drought risk in Ethiopia. As part of a pilot, WFP obtained insurance through a contract with AXA Re, a Paris-based reinsurer using a sophisticated index based on Ethiopia’s historical rainfall and agricultural output data. The Ethiopian weather index shows an 80 percent correlation with the total number of food-aid beneficiaries across the years; can predict as early as August; and protects against moral hazard by all parties. The index is thus an early, objective and accurate predictor of ex-post need, allowing for an earlier and more productive response to shocks.

25. Insurance against catastrophic shock is not necessarily the most suitable option for many “medium” categories of shocks, however. An alternative instrument with similar early-response and index-based characteristics is *contingency funding*. While the importance of contingency funding has been recognized for some time in the literature, adoption of this approach is still not widespread. Recent initiatives such as the global Central Emergency Response Fund (CERF) indicate an increased interest in moving in this direction. WFP, DFID and the World Bank have also started to work together in elaborating a conceptual framework for integrated risk financing for Ethiopia (Figure 1).

Figure 1: Integrating Financing for Risk management in Ethiopia



26. To conclude, the sustainability of the transition from relief to development requires addressing transient food insecurity, not only chronic food insecurity. There is need for financing instruments which would enable timely and predictable intervention in a crisis, in order to protect households from having to engage in destructive risk-coping strategies.

2. Implementation of PSNP APL I (2005-2006)

27 Overall, despite experiencing difficulties in program implementation given its scale and implementation capacity constraints, in a relatively short period the PSNP has established itself as a vehicle for directly assisting the poorest rural households, as well as for being a

major source of investment in environmental rehabilitation, local infrastructure, and as a potential driver of rural growth. The proposed Project aims to support consolidation of the development of the new system and enhance its efficiency, effectiveness and sustainability

2.1 Program Scale and Core Parameters

28. The sheer scale of the Program's coverage both defines the challenge and provides perspective on the performance of the program to date. The PSNP operates in over 230 chronically food insecure woredas in 7 Regions and provides assistance to more than 7 million people who constitute about 1.44 million households (Table 2).

Table 2. 2005 and 2006 PSNP Woredas and Beneficiaries

Region	2005		2006	
	No. of woredas	No. of Beneficiaries	No. of woredas	No. of Beneficiaries
Amhara	52	2,000,000	52	2,519,529
Oromia	51	1,102,022	62	1,378,876
SNNPR	57	760,461	58	1,298,981
Tigray	30	911,451	31	1,453,707
Dire Dawa	1	48,275	1	52,614
Harar	1	16,196	1	16,136
Afar	0	0	29	472,229
Somali	0	0	0	0
Total	192	4,838,405	234	7,192,072

Source: FSCB, 2006.

29. The PSNP is a prime example of donor collaboration and harmonization. The Bank and several other partners (CIDA, DFID, EC, IrishAid, USAID, WFP) are providing pooled financing for one unified program implemented under the leadership of the Federal Food Security Coordination Bureau (FSCB).

30. The resource envelope required for the PSNP is about US\$ 225 million per year². This is equivalent to approximately 1.73 percent of the GDP of Ethiopia. From the perspective of domestic public investment priorities, it represents over a quarter of the expenditure by all levels of Government on education, but is considerably higher than public expenditure on health (Table 3).

Table 3: Public Expenditures (% of GDP): PSNP Compared to Social Sectors

Sector	Public Spending as % of GDP
Education (all levels)	6.08
Health (all levels)	1.19
PSNP	1.73

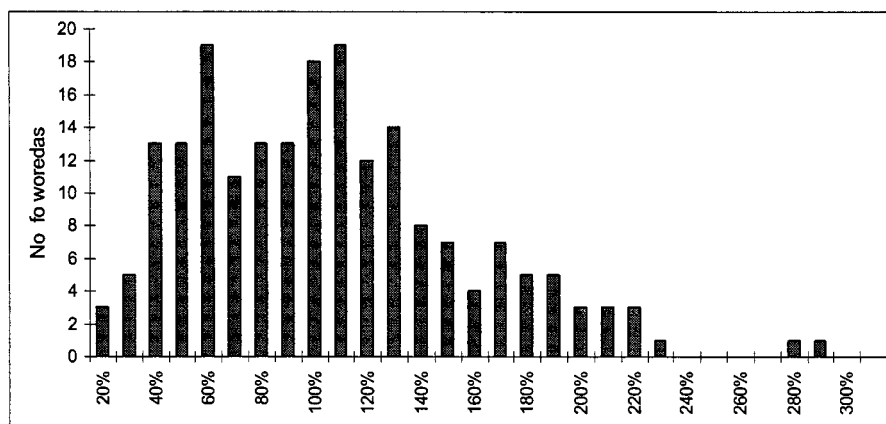
Note: Health and Education data represent budget allocations for the year 2005/06. PSNP data reflects 2006 program spending. Source: World Bank staff estimates based on MOFED data.

31. Moreover at the level of the woreda, the PSNP constitutes a sizable source of additional resources relative to the main instrument for intergovernmental fiscal transfers, the woreda block grant. In many woredas, the PSNP grant is actually much larger than the block grant itself and constitutes a significant additional source of investment in soil and water

² This is based on 2006 program parameters. There are various methodologies for costing the value of in-kind resources to the program. Here we take the approach of costing these resources at their value to the beneficiary, around ETB 2/kg. The estimate does not include the cost of Somali.

conservation and other small infrastructure such as rural roads, schools and health posts. In over almost 50% of woredas, the PSNP exceeds the woreda block grant in size of resources (see Figure 2 and Annex 6 for a detailed analysis). It may be noted that the total amount of resources available to the woreda will be larger than that suggested by the woreda block grant alone, given that many sources of funds are still off-budget (e.g. from NGOs or other donor projects) and woredas also collect their own revenues.

Figure 2: Distribution of Ratio of Woreda PSNP Resources to Woreda Block Grant



Source: WB staff estimates based on MOFED and FSCB fiscal data.

2.2 Governance Dimensions

32. As with any public program implemented through different tiers of administration, with specific targeting criteria, involving millions of beneficiaries and a large amount of resources, the PSNP requires strong checks and balances to protect it from manipulation for personal ends or special interests. Establishing and upholding the program's reputation for fairness and performance is particularly important in the contested political environment prevalent in Ethiopia since the elections of May 2005. A summary assessment of the PSNP's performance with respect to governance is that it has addressed the core issues but with certain weaknesses in implementation. The proposed Phase II of the PSNP is designed to address these weaknesses and strengthen overall Program governance. Four aspects are highlighted here:

33. *Program targeting and local accountability.* In order to address the central governance concern of who has access to the program and who does not, an independent review of program targeting was undertaken in mid-2006. It indicates that considerable efforts are being made by local government officials and communities to apply the PSNP targeting guidelines – which stipulate that households having at least 3 months of food insecurity year after year should be included – as well as they can. There are, inevitably, problems, errors, and room for improvement, but in general, the review did not find any systematic political or ethnic bias in the selection of beneficiaries. The system for appeals and complaints laid out in the Program Implementation Manual (PIM) is formally in place in most woredas, but its functioning is hampered by factors such as the overlap between targeting and appeals bodies. Records of appeals are not maintained and are not passed to higher levels of Government for oversight. Potential beneficiaries are also not well-informed about their rights.

34. On the positive side, the names of identified beneficiary members are read out at public community meetings and the opportunity exists for challenges to be lodged at the time. Also in some woredas separate appeals bodies have been established. The study notes that protests of inclusion and exclusion of individuals have been raised through these measures

and in some cases remedial actions have been taken. Moreover, the study finds that PSNP beneficiaries in the focus woredas had substantially lower incomes, farmed less land, and owned a lower value of assets than non-beneficiaries. They also had less labor and higher age-based dependency ratios, and were more likely to have suffered food shortages (Table 4).

Table 4. Household Income and Land Access, by PSNP Status

Economic Characteristics	Direct support	Public Works	Non-PSNP HH
Annual HH income (birr)	690	1,587	1,949
Total Asset value (birr)	320	846	1,471
HH owning land (%)	75.4	88.8	88.2
Land cultivated (ha)	0.47	0.64	0.98

Source: S.Devereux et al. (2006); "Trends in PSNP Transfers within Targeted Households."

35. The study also highlights that given the pervasiveness of poverty in program woredas and inevitable budget constraints, there is social tension around the exclusion of households who are perceived as deserving assistance.

36. Based on the findings of the PSNP Targeting Study, the Government has incorporated the following dimensions into the PIM for implementation in the PSNP from 2007: widespread dissemination of PSNP targeting rules and appeals procedures in local languages and visually (also see below); separation of membership of the targeting structure and the appeals structure; and establishment of new directives for documentation and follow-up for appeals at the kebele, woreda and regional levels. Furthermore, the Government has also committed to establishing an annual appeals audit for the PSNP (see below and Annex 1).

37 *Transparency.* Regarding public disclosure of key data on program performance, the Government has already published on the web information on the woreda-by-woreda PSNP resource allocations for 2006, and will update it with 2007 data and monthly updates regarding transfers to Regions/woredas. Safety net budget amounts and public works plans will also be posted in each woreda and kebele for public review. As noted above, a communication campaign is also planned to disseminate information at the local-level. This will involve posting information on program objectives, targeting criteria and appeals and grievance procedures in every kebele implementing the program. By the end of 2007 the Program also aims to complete a beneficiary assessment on satisfaction with PSNP services.

38. *Roving audit.* Given its unique need to make numerous small payments to household beneficiaries, at the outset of the PSNP Government and partners had agreed to institute an additional review via an independent roving audit which would visit 40 woredas each year. The 2005 audit has been completed and the 2006 audit is underway. The 2005 assessment finds no systematic evidence of leakages, and instead shows that (i) funds are being used for the purposes intended and (ii) the fiduciary controls the program has put in place are proving important in providing additional oversight of program finances. The problem areas (e.g. need for separate accounts) have been communicated to all the Regions and remedial action is being undertaken. The roving audit function agreed under APL I will be enhanced for APL II. It will have three components – financial management (already included under APL I), procurement, and the appeals process – each conducted by a specialized team.

39 *Parliamentary oversight.* The Government already reports on the PSNP to the Rural Development Committee of the Federal Parliament. Given the recent creation of the new committee on Public Accounts – which is chaired by a member of the Opposition – the PSNP will also be subject to post-audit review by this Committee.

2.3 Start-up Difficulties and Government Response

40. Despite the Government's efforts to develop detailed guidelines on PSNP management and implementation, plus a large cascade of training on the guidelines, the start-up of the PSNP was marked by significant delay in payments to beneficiaries. The main reason had to do with different types of capacity constraints, especially logistic capacity of woredas to organize large-scale payments of cash grants to beneficiary households. Further, there were initial problems with targeting in Amhara Region which resulted in widespread exclusion of eligible beneficiaries.

41. The Government reacted to the situation with a number of measures. It streamlined the approval of beneficiary payrolls, de-linking the confirmation of work completed from the technical verification of the works; instructed woredas to pay 3 month lump-sum payments to beneficiaries; and the number of program beneficiaries in Amhara Region was increased by 20 percent to address the problem of exclusion. Furthermore, in order to get more real-time information on Program performance, the Government established an Information Centre within the FSCB tasked with collecting information directly from a sample of woredas.

42. During the second year woreda officials continued to be trained, including on participatory community planning and critical watershed management. Also, around 7000 Development Agents in program woredas were trained. Additional budgets were made available to Regional Food Security Offices to enable them to provide enhanced support to woredas. Implementation procedures were reviewed and revised to ensure that they are as streamlined and straightforward as possible. A simplified set of "low-risk, low-tech" options for public works was created to assist woredas with weak public works management capacity. The flow of funds for the PSNP was harmonized to the core treasury channel.

2.4 Program Results, Outputs, and Outcomes

43. Notwithstanding capacity constraints, in 2005 the PSNP made about 4 rounds of payments to beneficiaries, who received on average either ETB 175 in cash payments (97% of the target) or 83 kg in grain (93% of the target). This compares favorably with the performance under the emergency relief system, where in 2004, for example, there were on average 2.3 rounds of food distribution providing a total of 41 kg per beneficiary (Food Aid Use and Impact Survey, 2004).

44. The 2005 beneficiary survey³ found that the PSNP has had a significant positive effect on the well-being of beneficiaries, as calculated both through subjective and objective indicators. Moreover the survey noted the following specific positive outcomes of the program:

- (i) *Food security:* Three-quarters of beneficiary households reported that they consumed more food or better quality food in 2005 as compared with 2004 and 94% of these households attributed this to the PSNP. Three in five beneficiaries retained more of their own food production to eat rather than selling it for other needs, and 90% of beneficiaries said that this was as a result of the PSNP.
- (ii) *Asset protection:* Three in five beneficiaries avoided having to sell assets to buy food in 2005 – a common distress response to household food shortage. About 90% of households attributed this outcome to participation in the PSNP.

³ S.Devereux, R.Sabates-Wheeler, M Terea and H.Taye (2006) Trends in PSNP Transfers within Targeted Households. (Institute of Development Studies, Sussex and Indak International, Addis Ababa).

- (iii) *Utilization of education and health services:* Almost half the beneficiaries surveyed stated that they used healthcare facilities more in 2005/06 than in 2004/05 and 76% of these households credited the PSNP with this enhanced access. More than one third of households enrolled more of their children in school and 80% of this was attributed to participation in the PSNP
- (iv) *Asset creation:* Approximately one quarter of PSNP beneficiaries acquired new assets for their households, or new skills, during 2005. The PSNP was considered the prime driver behind the acquisition of these skills (86%) presumably through the training received in the program, as well as being behind over half (55%) of the additional asset creation.

45. Finally, as mentioned above, the PSNP currently generates around 172 million person days of labor a year through the labor intensive public works component (see Table 1). This has created substantial community assets in beneficiary communities, with economic and environmental impact. Early results from the CSA baseline survey for the PSNP indicate that in general households reported a high level of satisfaction with the community assets built, with 77% of respondents reporting that the community as a whole had benefited from the assets created under the PSNP

3. Rationale for Bank Involvement

46. The rationale for Bank involvement as defined for Phase 1 of the PSNP APL remains valid. *First*, the recently approved Interim Country Assistance Strategy (ICAS, May 2006) for Ethiopia highlights the PSNP as a “central component of the Government’s strategy to combat vulnerability” and a critical area for Bank support. The ICAS also identifies the PSNP as supporting increased agricultural productivity, a pillar of the Bank program, through the contribution of the public works program to reversing environmental degradation.

47. *Second*, the transition to an effective and development-oriented safety net is not yet complete. The Government, Bank and donor consortium need to recommit to their technical engagement with the PSNP in order to enable the full potential of the reform to be realized.

48. *Third*, the Bank is well placed to draw upon global experience and innovations in safety net design and environmental rehabilitation, and to assist the Government in adapting these to the Ethiopian context. The learning experience can be two-way, with the implementation experience of the PSNP also benefiting the design and implementation of safety nets in other low-income countries.

49. *Fourth*, the Bank’s financial contribution is critical in leveraging other partners’ financing. Moreover, analysis of Program financing requirements and currently confirmed commitments shows that Bank resources continue to be required to fill a financing gap.

4. Higher Level Objectives to Which the Project Contributes

50. *Ethiopia’s poverty reduction strategy.* In conjunction with other initiatives under the Government’s Food Security Program (FSP), the Productive Safety Net Program aims to shift away from a focus on short-term food needs met through emergency relief to addressing the underlying causes of household food-insecurity. As such it forms a core component of the Government’s successive poverty reduction strategies: first the Sustainable Development and Poverty Reduction Program (SDPRP) and, from 2006, the five-year Program for Accelerated and Sustained Development to End Poverty (PASDEP).

51. *Millennium Development Goals (MDGs).* The Project is expected to contribute to the reduction in the number of Ethiopians suffering from extreme hunger, malnutrition, and

poverty (MDG 1), and to the rehabilitation of the environment by strengthening soil and water conservation, making agriculture more productive and sustainable (MDG 7). Given the harmonized donor framework adopted for the PSNP, the project also contributes to MDG 8 on partnerships.

52. *World Bank Africa Action Plan.* The PSNP is expected to contribute to *rural growth* by building and maintaining public infrastructure (e.g. rural roads), reviving the environmental potential of degraded lands, and providing grants rather than food aid to households, simultaneously enabling small-holder farmers to purchase inputs (e.g. fertilizer) while stimulating rural markets through demand linkages. The Project will also help Ethiopia *better manage the impact of shocks* by developing a portfolio of financing instruments to allow a more timely response to shocks and prevention of loss of livelihoods and assets. Finally, the PSNP contributes significantly to the *governance and accountability* objectives by promoting greater transparency, encouraging citizen feedback, and participation on decisions related to PSNP resource allocation and use.

B. PROJECT DESCRIPTION

1. Lending Instrument

53. The Bank will utilize the second phase of an Adaptable Program Loan (APL) instrument to provide an IDA Grant of US\$ 175 million equivalent as its ongoing financing for the Productive Safety Net Program. The IDA project is proposed to become effective early in the first quarter of 2007 and to span 2007 to 2009 (closing date June 2010). The Bank's Project Appraisal Document (PAD) is regarded as a key reference document not only for the Bank's APL II financing but for the program as a whole.

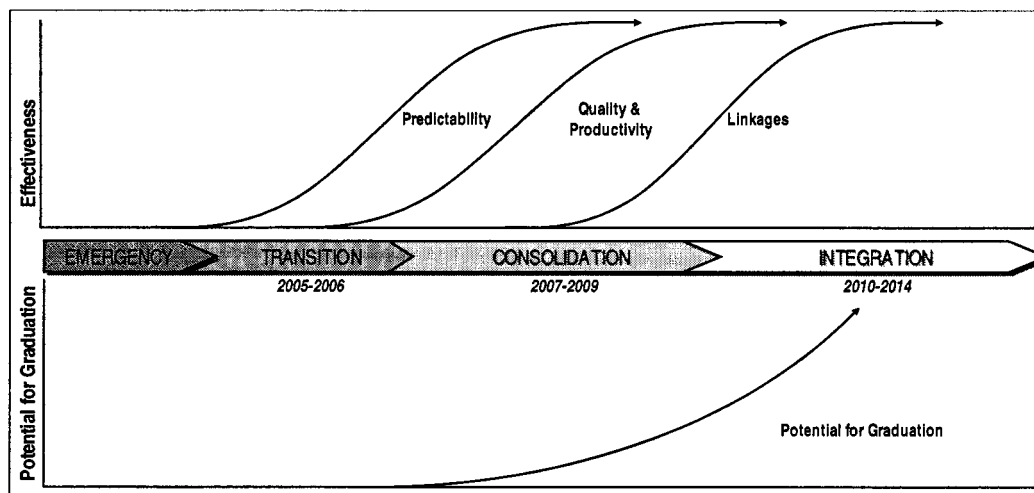
2. Program Objective and Phases

54. The development objective of the **overall PSNP series** is to contribute to reducing household vulnerability and improving resilience to shocks. This will be achieved through reform of the humanitarian emergency system to a development-oriented program which provides timely, predictable and adequate transfers to beneficiary households, thus allowing effective consumption-smoothing and avoiding asset-depletion; creates productive and sustainable community assets; contributes to large-scale rehabilitation of severely degraded areas; stimulates local markets through demand linkages; and establishes more effective responses to drought shocks to avoid increasing destitution among affected households.

55. A two-phased APL for the PSNP was approved by the World Bank's Executive Board in November 2004. As originally conceived, the first APL phase focusing on **Transition** was to be followed by a second APL phase focusing on **Consolidation** of reforms. Discussions between the Government, partners and the Bank, indicate that the rationale behind this sequence of support remains valid and accordingly, the proposed Project (APL II) will focus on the immediate and medium-term issues of enhancing governance (including efficiency), environmental impact and financial sustainability of the PSNP as they fall logically in the sequence of moving from transition to consolidation. It was also agreed, however, that while the longer term issues of fostering graduation out of chronic food insecurity would already be addressed in APL II through appropriate integration of the PSNP and other food security interventions, the full impact in terms of an exponential growth in the numbers of households graduating out of food insecurity could not be fully realized within the time-frame of APL II. It was therefore felt necessary to *extend the APL series by adding a third phase focused on Integration*.

56. At the end of Phase II, an assessment will be undertaken to identify the duration and scope of activities under Phase III. This will utilize analysis of baseline and follow-up survey data for the Government's broader Food Security Program (including the PSNP) and findings from the impact evaluation. Flexible financing for a range of activities is envisaged under APL III which could support not only public works or direct support to households but also household asset-building initiatives in a harmonized investment framework. The revised full APL series with three phases – Transition, Consolidation, and Integration – is seen as a continuum (Figure 3).

Figure 3: The Evolution of the Productive Safety Net Program



57. *APL Phase I – Transition (2005-2006, US\$ 70 million):* Phase I of the Program intended to assist the Government to transition from a relief-oriented to a productive and development-oriented safety net by (i) providing predictable, multi-annual resources, (ii) replacing food with grants as the primary medium of support, (iii) making resources available for critical capital, technical assistance, and administrative costs, (iv) strengthening community involvement by supporting community targeting and local-level participatory planning as core principles of the program, and (v) relating public works activities to the underlying causes of food insecurity, especially with respect to soil and water conservation measures. In short, it aimed to put in place all of the essential elements of the new system.

58. *APL Phase II – Consolidation (2007-2009, US\$ 175 million):* The second phase aims to consolidate the progress made under Phase I and continue to strengthen technical capacity in all aspects of program implementation. Further reforms will focus on (i) improving the efficiency and predictability of transfers by continuing to build capacity in Government systems and by strengthening resource planning and mobilization; (ii) strengthening program governance by enhancing existing targeting and grievance procedures as well as ensuring maximum transparency in program procedures and performance; (iii) increasing the productivity of the public works through a systematic focus on community planning using integrated watershed management techniques and the enhanced involvement of key technical staff from the Bureaus of Natural Resources and Land Administration; (iv) strengthening all aspects of monitoring and evaluation, particularly the “evaluation” side; (v) ensuring the medium-term financial sustainability of the Program; (vi) developing more efficient financing instruments for integrated risk management to ensure a more predictable and timely response to shocks; and (vi) developing better understanding of how to define, measure, and promote graduation by undertaking key analytical and piloting work prior to Phase III of project

implementation. This will draw on a review by CGAP (the Consultative Group for Assistance to the Poor) of the FSP and implementation of a possible CGAP pilot.

59 *APL Phase III – Integration (indicative timeframe is 2010-2014, US\$ 175 million).* Under APL III the financing of PSNP grants to beneficiaries and the integrated risk financing system will continue. Triggers for APL III have been established around the adjustments needed to improve the coherence between the PSNP and the other components of the FSP and the PSNP in order to accelerate households' graduation out of chronic food insecurity. A harmonized investment framework is envisaged for support to a range of activities which help to protect household assets, and build household and community assets. The geographic coverage of the program will also be reviewed.

60. The agreed triggers for APL II and their status are presented in Table 5 below

Table 5: Triggers for the Second Phase of the PSNP APL

<i>Area</i>	<i>Trigger</i>	<i>Status</i>
Capacity Building	(i) Full implementation of a capacity building program to deliver ongoing training at regional, woreda, and kebele levels, including modules on technical, targeting and planning, and procedural aspects of the PSNP	(i) Completed. Government has initiated several capacity building initiatives including: (a) launching large scale procurement of equipment to support project implementation; (b) provision of budgets to regional and woreda administrations to support recruitment of extra staff and to allow staff to undertake support activities in the field; and (c) implementation of annual training on a number of subjects including community-based integrated watershed management, targeting, and M&E. Two key areas for particular focus prior to the 2007 program will be comprehensive training of finance staff, and additional training and enhanced implementation of the ESMF
Monitoring & Evaluation System	(ii) A study to further develop the effectiveness of the direct support component is completed, recommendations are formulated and, where appropriate, incorporated into the PSNP	(ii) Partially completed. The study is currently underway. Summary of lessons learned from related studies has been submitted prior to negotiations. The final study report will be completed in January 2007
	(iii) A study on the outcomes from using deferred payments is undertaken, and recommendations are incorporated into the PSNP	(iii) Dropped. The Government and partners agreed to not proceed with the deferred payment system given complexities of implementation. Hence this trigger is no longer relevant.
	(iv) A beneficiary database is established as part of the establishment of the Management Information System.	(iv) Completed. Each woreda has established payrolls containing names and payment amounts for each individual beneficiary. Pilot computerized beneficiary payroll data bases have also been established in at least two Regions, SNNPR and Tigray. DFID is assisting the FSCB to complete the exercise.
	(v) A full process evaluation is undertaken, recommendations formulated and incorporated into the PSNP	(v) Completed. A full process evaluation was carried out in several parts – a streamlining review of program procedures, a public works review, and a review of program

<i>Area</i>	<i>Trigger</i>	<i>Status</i>
		targeting, Agreed recommendations were incorporated into the PIM and related program documentation. This will be distributed to local implementers alongside appropriate training prior to the start of the 2007 program.
Linkages	(vi) A beneficiary assessment completed on the effectiveness of PSNP transfers and linkages between PSNP coverage and other food security interventions.	(vi) Completed. Two studies integrating quantitative and qualitative techniques have been completed.
Financial Management	(vii) The financial management system of the PSNP will be updated regularly to be compatible with the reform directions under the Government's Expenditure Management and Control Program.	(vii) Completed. The financial flows and reporting system of the PSNP have shifted to Channel 1. Some steps, such as the use of the BDA-BIS system to manage program budgeting and reporting are being further strengthened.

61. Triggers for the third phase of Integration have also been agreed between Government and the Bank, see below in Table 6.

Table 6: Triggers for the Third Phase of the PSNP APL

<i>Area</i>	<i>Trigger</i>
Linkages and Graduation	<ul style="list-style-type: none"> (i) The micro-finance dimension of the Government's Food Security Program (FSP) has improved coverage and uptake from the 2006 level. (ii) Integration of PSNP and Woreda development plans, and alignment of PSNP and Woreda planning, budgeting and reporting cycles. (iii) Government policy paper developed on how to address vulnerability in (a) non-FSP/PSNP woredas in rural areas and (b) in urban areas. (iv) Review of implementation experience under the access to new lands program and the implications of any return migration to chronically food insecure areas for the PSNP
Environmental Management	(v) Assessment completed of the environmental and household impact of the public works completed under the PSNP
Monitoring & Evaluation System	(vi) Impact evaluation completed and necessary adjustments to program design have been made.

3. Project Development Objective and Key Indicators

3.1 Project Development Objective (PDO)

62. The objective of the proposed PSNP APL II Project is to continue to improve the efficiency, effectiveness and fairness of the program in terms of ensuring (i) timely, well-targeted transfers, (ii) the quality and environmental impact of the public works, (iii) the complementarity between the PSNP and other food security interventions, (iv) the local accountability dimensions of the program, and (v) Ethiopia's ability to respond to drought.

3.2 Key Performance Indicators

63. Reporting on progress and achievements by end of Phase 2 of the Program will continue to rely on the Government's M&E system developed for the Food Security Program of which the Productive Safety Net Program is a part. Supplementary information from sample surveys, public works reviews, beneficiary assessments, and other studies will be used where appropriate. Overall, the M&E system will report on targets and actual accomplishments. Progress towards the achievement of the project's development objectives will be measured by the following key outcome indicators. Intermediate outcome indicators are described in Annex 4.

- (i) the average number of months that PSNP households report being food insecure;
- (ii) % of beneficiary households that receive PSNP resources reporting no distress sales of assets to meet food;
- (iii) % of public works assessed to be satisfactory (using PW Review performance criteria - eligibility, appropriateness, effectiveness, quality and sustainability);
- (iv) % of PSNP kebeles with established and operational kebele appeals committees;
- (v) % of households reporting direct benefit from community assets; and
- (vi) % of Other Food Security Program (OFSP) beneficiaries who also receive the PSNP

4. Project Components

64. APL II will continue implementation of the project components approved as part of APL I, as well as the various modifications planned or underway to further strengthen core program implementation. APL I comprised two components, **Safety Net Grants** for activities including public works and direct support and **Institutional Support** activities, focused on capacity building and M&E. APL II will continue support to these two components as well as include additional activities to support **Integrated Risk Financing**.

4.1 Component 1: Safety Net Grants (IDA US\$ 145.0 million; DFID US\$ 182.8 million equivalent, EC US\$ 187.6 million equivalent; Irish US\$ 16.0 million equivalent; CIDA US\$ 13.4 million equivalent; USAID US\$ 38.0 million equivalent; WFP US\$ 26.6 million equivalent; GOE, US\$ 1.0 million equivalent, and Other US\$ 50.0 million equivalent)

65. *Labor-intensive public works (PW)* will provide grants to households whose adults participate in public works sub-projects. Sub-projects to be undertaken are determined locally by the beneficiary communities through an annual, participatory planning process that focuses on integrated watershed management. Since the most appropriate time for undertaking public works is during the dry season, which occurs in general between January and June in Ethiopia, most public works and payment will be scheduled during this period, although some works will continue through August such as afforestation. This timing is also beneficial to households by ensuring that the bulk of transfers are provided to them before the "hungry" season starts (around June). The timing of PW aims for households to have the resources available when they are needed, as well as works to be undertaken at the most appropriate time in terms of weather conditions and when labor demand from alternative agricultural activities is at its lowest.

66. A major focus of APL II will be on improving the quality and environmental impact of the public works activities. In order to achieve this, the Government will establish PW Focal Teams in the Natural Resources Department of the Bureaus of Agriculture and Rural Development (BOARD) in each implementing Region. These teams will be resources and charged with the responsibility for technical planning, oversight and back-stopping woredas in the implementation of appropriate, high-quality PW sub-projects. This will also serve to

strengthen implementation of the Environmental and Social Management Framework, which falls largely within their remit.

67. Two budget lines for capital inputs and administrative/management costs will be allocated to woredas alongside the financing for the unskilled labor costs (i.e., the transfers to households for public works). Furthermore, under APL II financing for PW will be transferred from Federal levels to Regions and woredas *before* the start of the PSNP implementation season, to ensure that woredas have the funds to procure tools and materials and start activities in a timely way. “Info-tech notes” or technical guidelines and work-norms have been developed by MOARD for different types of labor-intensive PW and made available to PSNP implementers.

68. During APL II the PSNP planning cycle will be aligned with the annual Government financial and planning calendar at each level. The PSNP will also develop tools to facilitate the woreda planning process, such as the piloting and subsequent scaling up of GIS and GPS systems to give woredas improved mapping and planning ability. Moreover, APL I conducted the annual Public Works Review, which will be scaled up and become a key part of monitoring the implementation of public works on a semi-annual basis. The reviews will provide an opportunity for inter-regional learning and sharing of best practice.

69. *Direct support* (DS) will provide grants to households who are labor-poor and cannot undertake public works. Beneficiaries include, but are not limited to, orphans, pregnant and lactating mothers, elderly households, other labor-poor, high risk households with sick individuals (such as people living with HIV/AIDS), and the majority of female-headed households with young children and no other available adult labor. During an interim period while work is ongoing in design of safety nets appropriate to pastoral communities, payments to the chronically food insecure in pastoral areas in SNNPR and Afar are also being made via Direct Support.

70. Operational modalities for the implementation of the DS Component are being strengthened, incorporating lessons learned from the first phase. Implementation guidelines are being further clarified and/or strengthened in regard to the types and levels of support for female-headed households, definition of work norms taking gender considerations into account, the use of capital and administrative/management budgets to support DS beneficiary participation in and/or contribution to community activities, including training to increase their future productivity, and monitoring of DS activities. Under APL II, a unified beneficiary list integrating public works beneficiaries and direct support beneficiaries will be adopted. Capacity at woreda level will be strengthened through the provision of training, back-stopping and technical support. Opportunities for strengthening linkages with other ongoing programs, particularly in the delivery of training to DS beneficiaries (i.e. literacy classes; child nutrition/growth classes, awareness campaigns for HIV/ AIDS).

4.2 Component 2: Drought Risk Financing (IDA US\$ 25 million)

71. Component 2 of the PSNP APL II is based on the key lesson that contingent components in Bank projects are important instruments for responding more effectively to shocks. There is ample evidence that the Banks’ traditional vehicles for response to shocks, such as Emergency Recovery Loans, which are approved after a disaster has struck, are too slow in channeling resources to help communities deal with the impact of shocks. More recently, World Bank projects have incorporated contingent components into their design ex-ante so that after a shock resources can be disbursed very quickly for pre-defined activities. Recent examples of this include the Colombia Natural Disaster Vulnerability Reduction Project, the Caribbean Hurricane Insurance Pool Project, and the Mongolia Livestock Support Project, which includes a livestock mortality index-based insurance, reinsured by the Bank.

72. While Component 1 focuses on the *chronically* food insecure, Component 2 seeks to provide timely resources for *transient* food insecure households in response to shocks within existing program areas. The component will be financed using a *contingent grant*, which will provide resources for scaling-up activities under Component 1 in response to localized or intermediate drought in PSNP woredas. This component is seen as central to the sustainability of the overall PSNP by providing an early response which can more effectively prevent household asset depletion and increased levels of destitution. Given the size of the contingent grant this will likely be only part of the financing needed to respond to drought over the life of the project. It is envisaged that this component will be the first element in a coordinated portfolio of financing instruments supported by other development partners that seek to improve the timeliness and predictability of resources in response to emergencies more broadly. Additionally, Government has indicated its intention to use resources from the Food Security Program budget to respond to drought should this be necessary.

73. Given that the required volume and proposed use of resources will be contingent on the size and nature of a specific drought event, this component will develop the *Livelihood Protection Cost Index* – a rainfall-based index utilizing 30 years of rainfall data in Ethiopia, in order to eventually trigger and scale disbursements. While it is envisaged that the index will, in due course, be the principal instrument to be used for triggering financing for this component, it is agreed that alternative methodologies may also be used if they can ensure a timely, objective, and transparent response. It is agreed that this index will need to be further developed, back-tested, and finalized in consultation and agreement with Government and that ultimately the index will be housed within a Government institution. Financing will be channeled to woredas using existing distribution systems established under the PSNP according to pre-established contingency plans.

4.3 Component 3: Institutional Support (IDA US\$ 5.0 million; DFID US\$ 11.80 million equivalent; EC US\$ 8.0 million equivalent; CIDA US\$ 1 million equivalent; Ireland US\$ 2.0 million equivalent; GOE US\$ 1.0 million equivalent; and Other US\$ 6.5 million equivalent)

74. This component will support institutional strengthening activities, including related management costs, during the APL II implementation period. These costs will be covered from different funding sources. Apart from the program budget, there will be additional financing contributions from different donors, e.g. DFID will manage a technical assistance call-down facility, CIDA will pay directly for TA, while CIDA, DFID, and Irish Aid will continue to provide funds through a multi donor trust fund managed by the World Bank. Activities supported through this component include:

75. *Program management costs and capacity building* at community level to strengthen beneficiary identification and local level planning; at woreda and regional to improve financial management and procurement capacity, and at all levels to improve technical supervision of public works to ensure that sub-projects are designed and implemented appropriately.

76. *Monitoring and evaluation* by focusing on the implementation of the monitoring framework designed under APL I and additional instruments such as the Rapid Response Mechanism and Information Centre that are critical to ensuring smooth program implementation. It will also focus on improving monitoring of public works through the scaling up of the annual Public Works Review. It will finance the impact evaluation survey that will follow the baseline survey implemented under APL I, social assessment to ensure proper treatment of social factors that affect the implementation, quality, effectiveness and impact of safety net activities, and beneficiary assessments to assess beneficiary satisfaction with safety net interventions. Strategic training activities to further strengthen capacity for monitoring, evaluation, and reporting will be implemented at all levels.

77. *Transparency and accountability* measures that will ensure widespread understanding of program objectives, procedures, and implementation progress among key stakeholders, both domestic and international. This will include development of material on program objectives and procedures suitable for communication at community levels, carry out beneficiary assessments, and the publication of critical program information at federal level through various media, etc.

78. The Institutional Support component will also finance several studies and pilots that have been included as triggers for APL III. These will define the supporting interventions necessary to promote graduation and determine how they should be appropriately integrated with the PSNP

5. Lessons Learned and Reflected in the Project Design

79. Several studies of the PSNP and related programs have been recently conducted. The lessons are extensive and they are discussed in more detail in Annex 2. In the sections below, lessons learned from the implementation of the first phase (for which the Bank's Implementation Completion Review and Evaluation Mission was completed in October 2006), alongside other lessons from Ethiopia, as well as some key findings from global experience are discussed.

5.1 Lessons from the Implementation of the PSNP First Phase (APL I)

On Policy Dimensions of Building a Safety Net in a Low-Income Country

80. *Clarity on Size of Safety Net.* The need for clarity on the ultimate dimensions of the safety net based on a longer-term perspective on and a shared understanding of graduation, a clear distinction between the chronic and transient caseload, contingency and emergency appeals, and on-going assessments of resource availability and fiscal sustainability.

81. *Optimal numbers of target beneficiaries.* In low income settings, the optimal numbers of target beneficiaries is difficult to establish. A combination of geographical targeting and community-based targeting is more appropriate than sophisticated household proxy means testing due to difficulty in differentiating between masses of food insecure and low levels of rural income inequality. But even with good targeting, there will be large errors of exclusion (because resources are limited) and non-negligible errors of inclusion (due to the limitations of community targeting in a cultural setting where when you earn you share).

82. *Smoothing consumption and preventing asset depletion:* To smooth consumption for chronically food insecure households and prevent asset depletion, safety nets must (i) be aligned with preferences of target beneficiaries (i.e. cash, food, or a combination of both); (ii) be delivered in a predictable, timely and appropriate manner; and (iii) in the case of transfers for public works, not lead to displacement of beneficiary participation in other productive activities.

83. *Safety Net Program and Graduation.* A safety net program should be matched with a long term perspective to get people out of the safety net. The pace of exit out of food insecurity needs to be set against a realistic assessment of overall trends and conditions. Graduation cannot expect to be linked to the safety net and needs to be viewed with an understanding of the paths out of poverty which are beyond improved agricultural productivity, such as off-farm employment, urban migration, better access to education and health and so on.

84. *Political buy-in.* There is a need for political buy-in on all sides for programs of the scale of PSNP. It is politically unfeasible to withhold financing or restrict to a pilot when linked to humanitarian assistance.

On the Approach of Mainstreaming Programs within Existing Government Systems

85. *Use of Existing Government Structures for Program Implementation.* While using existing Government channels and institutional structures is consistent with long-term public sector management objectives, reliance solely on permanent civil service staff will not be sufficient in the short term to address capacity constraints. Greater use of contracted staff – which is permitted within the civil service structure – plus performance incentives, incorporating best practices from community-driven approaches, etc. can ease implementation capacity constraints and improve program performance.

On Operational Aspects of the Program

86. *Public works,* can help create productive and sustainable community assets when they are: (i) prioritized by target beneficiaries according to their development priorities, and for which there is active involvement of communities in all phases of project cycle; (ii) integrated in local development plans and for which there are upfront agreements on arrangements for sustainability; (iii) adequate technical inputs in design and supervision.

87. *Building and sustaining capacity for implementation of safety net activities at local level.* Program of this nature must focus by priority on the district and community levels, including (a) adequately informed local actors using local languages and appropriate materials, (b) creating a more visible and empowered role for community-level task forces to promote ownership and social control, (c) raising the technical level of local implementers (woreda staff, DAs and foremen, community task forces), and (d) supporting their ability to ensure operations and maintenance of the completed works.

88. *Importance of communication strategy.* A communications, training and dissemination strategy is critical. The main implementation issues were not so much the question of the availability of guidelines but what it takes to effectively operationalize them and to ensure there is proper understanding among the key implementation levels, including clearly designed responsibilities and accountability at community level (and upwards).

89. *Strengthening Performance Monitoring.* Increased use of performance monitoring (technical audits, outputs versus work norms, ex-post analysis of utilization and impact) are essential requirements to ensuring continuous improvement in the productivity of infrastructure in terms of technical quality as well as sustainability.

90. *Multi-Donor Framework.* A multi-donor framework is necessary for building coherence of approach and requires upfront investments in its proper structuring and systematization. Transaction costs can be reduced by formal arrangements and dedicated coordination staff. Rotating the chairperson is helpful to share responsibilities. All partners agree that care is necessary so that excessive involvement by development partners in day-to-day implementation does not erode Government control over Program management.

5.2 Lessons from Ethiopian Experience

91. *Planning food-cash mix.* A recent study has shown that while the PSNP aims to move away from the previous reliance on food transfers and towards cash transfers, each type of transfer meets different needs at different times of the year. Currently, approximately 2.5 million people receive a combination of food and cash payments but this is often a result of availability of different types of resources and restrictions on use of cash in “low capacity

woredas” rather than a planned and sequenced approach. Planned sequencing of cash and food for many if not all beneficiaries may be optimal from the beneficiary’s point of view, but may not always be feasible in terms of logistic capacity.

92. *Medium-term resource planning.* Experience with resource planning over the past two years and projecting forward as part of the Medium-Term Expenditure and Financing Framework for the PSNP, has made it increasingly clear to the Government, the Bank and development partners that questions of program duration and financial sustainability need to be addressed urgently. This is especially true since the PSNP faces a large overall financing gap starting with Year 4 of implementation (i.e., 2008). Moreover, if partners remain unpredictable in timing and amount, then a major advantage of the PSNP over the emergency system will have vanished.

93. *It is feasible to use market mechanisms to finance drought risk in Ethiopia:* The Ethiopia Drought Insurance Pilot Project⁴, intermediated by WFP, purchased an insurance policy in 2005 with AXA Re, a Paris-based reinsurer using a sophisticated index based on Ethiopia’s historical rainfall and agricultural output. The Index shows an 80% correlation with the total number of historical food-aid beneficiaries, which allowed the index to be used as a good proxy of actual aggregate needs in case of drought. Further work in developing contingency planning meant that should a shock occur resources would be channeled to beneficiaries rapidly for pre-defined activities.

5.3 Lessons Learned from International Experience

94. *Safety nets can be major sources of infrastructure investment.* Approximately two-thirds of the rural infrastructure in the Indian state of Maharashtra was created under the Maharashtra Employment Guarantee Scheme (MEGS) public works safety net over the course of 25 years from 1973. The benefits from the safety net would be not only the value of the grants to the household, but also the productivity increases as a result of the creation of public infrastructure such as roads, ponds, watershed management etc. Moreover, research has shown that sustained implementation of MEGS has contributed to nearly halving of the poverty gap ratio in this extremely poor and ecologically fragile region of India.

95. *Comprehensive, long-term engagement required to reverse environmental degradation.* Evidence from the decade-long Loess Plateau Watershed Rehabilitation Project in China indicates that the vicious cycle of environmental degradation and poverty that have resulted from years of unsustainable farming practices combined with huge population pressure can be reversed. Critical factors were political commitment for change, the government’s policy for land tenure, public participation and heavy use of detailed land-use plans prepared in close consultation with villages; the importance of long-term contracts for farmers and contracting out land under rehabilitation to farmer households and; maintaining ongoing physical checks on progress and quality. Another clear lesson is that major environmental change requires sustained engagement. The Loess Plateau Project and the Maharashtra scheme have operated for more than a decade and almost three decades respectively.

96. *Incentives for innovation.* In order to promote best practice and stimulate innovative ideas in program implementation under Brazil’s Bolsa Familia (“family grant”) program, the Ministry of Social Development has launched an annual award (the “Premio de Gestão”). A block grant is provided to the municipality depending upon a rating of performance quality. Supplementary actions are undertaken in poorly performing municipalities. In contrast, there is little sharing of implementation experiences across Regions or across woredas within a Region in the PSNP; there are no explicit incentives to promote better performance. Such

⁴ Approved by the WFP Board in November 2005. The pilot receives financial support from USAID and Denmark.

learning networks and incentives have been found to be critical in developing a community of practitioners who compete with each other to improve performance, or collaborate to solve problems as and when they arise.

97. *Attention to gender issues:* A very significant body of research in sub-Saharan Africa shows that careful and focused attention must be paid to gender issues since the outcomes of policies and programs can differ markedly for women and men. In Ethiopia it is known that women, and particularly female headed households, tend to have much less access than men to services, income-generating opportunities, land and capital. Understanding local-level socio-cultural dynamics is important in ensuring that women benefit equally from programs.

98. *Proper sequencing of interventions.* Country experiences documented by CGAP indicate the central importance of sequencing interventions in order to enable sustainable improvements in the economic situation of a highly vulnerable household. A key element is not to force high-risk financial transactions onto highly vulnerable households but rather to allow them to gradually move up in the risk-reward spectrum through a learning-by-doing mode by, for example, handling micro grants and later moving into gradually larger loans.

6. Alternatives Considered and Reasons for Rejection

99. *Adding a third phase to the APL vs. keeping a two-phase APL series followed by a SIL.* Government's original framework for the PSNP was that it would be a 5 year program during which time most, if not all, of the program beneficiaries would achieve food security. At the time of approval of APL I it was recognized by donor partners that the timeframe envisaged was not realistic. It was nevertheless decided to start the process of reform of the emergency system and to adjust the overall timeline for the program subsequently. Preparation for Phase II of the APL has provided Government and donor partners an opportunity to review the timeline and scope of the program based on emerging evidence from the first two years of program implementation. It has also allowed further discussion on the necessary complementary investments and linkages required to promote sustainable graduation. As a result of this reflection, a third phase is proposed to be added to the Program. This phase will focus on the "integration" of the PSNP with an appropriate set of supporting programs. Bank financing will be via adding a third phase to the existing APL series.

100. Instead of adding a third phase to the existing APL series, however, the two-stage APL could have been retained to be followed by a stand-alone SIL (Specific Investment Loan). This latter option was rejected since it was felt that adding a third phase at this time sends an important signal to Government and donor partners alike that a realistic time-frame needs to be established with regard to graduation from food insecurity. A SIL was deemed to send a weaker signal since it may be seen as less of a commitment to continued engagement on the food security reform agenda. Moreover, addition of a third APL phase has allowed the Bank and donor partners to jointly define with Government the triggers for moving to a third phase of support.

101. *Public works on public lands only vs. for the public good.* At the inception of the PSNP, while it was clear that public works should be used to create community assets, the use of public works to create household assets was considered controversial by the Government. Specifically, the Government voiced concern that paying people to work on their own land would create the wrong incentives and would promote dependency. Furthermore, the Government pointed out that since the other FSP interventions are focused on building households assets, to avoid duplication, the PSNP's focus should not be on household assets.

102. In order for the integrated watershed management approach to be effective, however, it is necessary to take a holistic vision of the watershed. Applying the conceptual division between public land and land that is privately possessed, and limiting public works

interventions on the latter, is not effective. It can potentially lead to lower returns from *all* investments in the watershed since there are important social benefits of watershed management investments on land that is privately possessed that would be foregone. The PSNP PIM thus provides for the exception of paying people to work on land that is privately possessed would be appropriate for (i) the land of female-headed households who may not have enough available labor to undertake critical rehabilitation efforts themselves, and (ii) any other land if it is part of the critical watershed. While this position was already adopted in the PSNP during APL I, the Public Works Review indicated that there is need to strengthen the operational guidance on the issue during APL II implementation.

C. IMPLEMENTATION

1. Partnership Arrangements

103. The PSNP embodies best practice in donor collaboration. The policy shift to a productive safety net system has been strongly supported by the World Bank working in close partnership with a consortium of donors – CIDA, DFID, EC, IrishAid, USAID, and WFP. The donor group has pooled its financing – both in cash and food – and developed a unified stream of technical advice in support of a single Government-led program. This approach simultaneously achieves a scale impact, while avoiding the high transaction costs for the Government that would have been generated under a more fragmented donor approach. As noted earlier, the Bank's PAD serves as a common reference for partners as a whole. An MOU has been adopted by all partners and Government, which lays out the rights, obligations and coordination arrangements of the partnership. A Bank-managed PSNP Partnership MDTF has been established with funds from CIDA, DFID, and Irish Aid which, together with EC resources, enables enhanced supervision of the Program. A Donor Coordinator has been hired to improve donor coordination and to help manage the large volume of studies and technical assistance that are mobilized in support of the Program. Each financing agency also takes on responsibility for being Chair of the Donor Group on a rotating basis.

104. The EC is a key partner co-financing the PSNP through a Multi-Donor Trust Fund administered by the World Bank. DFID, while providing parallel funds, has also been a major partner in preparation of the first and second phases of financing. In addition to financing already provided for the first phase of the PSNP, additional contributions from DFID, EC, Irish Aid and CIDA of almost US\$ 423 million, as well as in-kind resources valued at approximately US\$ 65 million equivalent from USAID and WFP are planned to support the implementation of the second phase. These additional donor resources represent over 78% of total requirements for the second phase. Details of planned contributions from different partners in both cash and in-kind are detailed in Annex 7 and highlighted below:

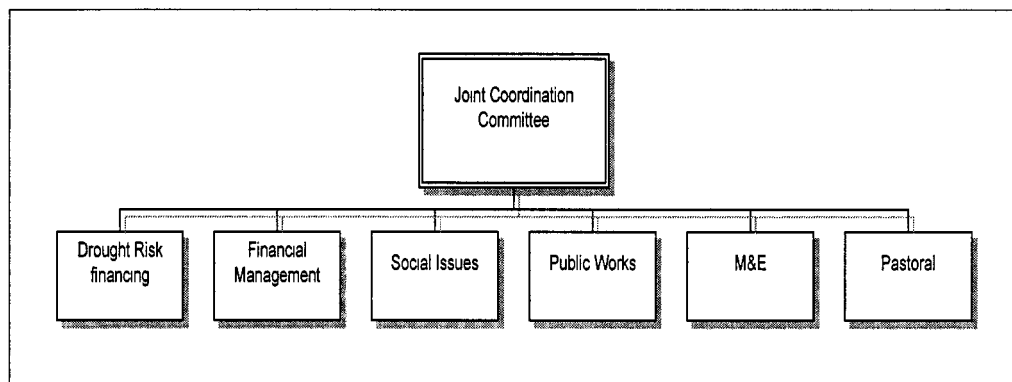
Component	Sources of Financing (in millions of US\$)									Sub-Total	Gap	Total
	GOE	IDA	DFID	EC	CIDA	Irish	USAID	WFP	Carry-over			
1. Safety Net Activities	1.00	145.00	182.80	187.60	13.40	16.00	38.00	26.60	50.00	660.40	178.10	838.50
2. Drought Risk Financing	-	25.00	-	-	-	-	-	-	-	25.00	-	25.00
3. Institutional Support	1.00	5.00	11.80	8.00	1.00	2.00	-	-	6.50	35.30	16.50	51.80
TOTAL	2.00	175.00	194.60	195.60	14.40	18.00	38.00	26.60	56.50	710.70	194.60	915.30

Note: (i) this table reflects indicative financing amounts only. (ii) Contributions from USAID and WFP are in-kind, and have been valued at 2 Birr per kilo. This is a methodology that allows consistency between the financing available and the Government's program budget. It should be recognized however that the actual cost of delivering these resources is significantly higher than this methodology reflects. Further, USAID continues to support over 1 million beneficiaries in Somali region that ultimately will be included in the PSNP once an appropriate program design for this pastoralist region has been completed and piloted. (iii) Carry over of US\$ 56.50 million represents donor contributions provided during the implementation of the first phase (APL I).

105. The first phase of the PSNP was instrumental in mobilizing substantial donor financing for the second phase. Excluding IDA, donor contributions increased from US\$263 million equivalent in Phase I to US\$ 487 million equivalent in Phase II. The corresponding increases in IDA commitments are from US\$ 70 million (plus an additional saving from the IDA financed Emergency Demobilisation and Re-integration Project of US\$ 44 million) to US\$ 175 million equivalent.

106. A high-level Consultative Group Meeting is planned for mid-2007 to mobilize the additional resources needed to meet the program's projected financing gap, currently estimated at US\$ 195 million equivalent. This will present an opportunity to share evidence on program outcomes to date and to discuss longer-term prospects for support to the Program. The meeting is intended for existing donors as well as new donors, such as Sweden and Japan that have already indicated an interest in providing financing to the program.

107 All development partner agencies have committed significant resources for the implementation support and supervision of the PSNP. To strengthen the effectiveness and overall quality of program interventions, several thematic working groups/task forces comprising representatives from Government and donor agencies have been established. Thematic Working Groups on Social Issues, Monitoring and Evaluation, Financial Management, Public Works, Pastoral issues, and Contingency Financing have been established. The Joint Coordination Committee, chaired by the FSCB with all PSNP financing partners, meets on a bi-weekly basis and has oversight responsibilities for the overall functioning of these groups.



Note: All these task forces may not be required for the full duration of Phase II. Furthermore, the task forces will meet on an ad-hoc basis as determined by the nature of the work program in each area.

2. Institutional and Implementation Arrangements

108. As in the first phase, the existing institutional structure will continue to be used for the second phase, such that food security line agencies at every level of government will be accountable for the oversight and coordination of the Program, with implementation of program activities being undertaken by woredas, kebeles, and other partners.

At federal level, the Ministry of Agriculture and Rural Development (MOARD) is responsible for overall strategic guidance, including technical support, coordination and monitoring and evaluation through its Federal Food Security Coordination Bureau (FSCB). The FSCB is responsible for ensuring appropriate linkages between PSNP and other FSP interventions. The Ministry of Finance and Economic Development (MOFED) is responsible for disbursing safety net resources to regions based on the size of the targeted food insecure population and in line with requests submitted by FSCB. It is responsible for the overall financial management of the program, including management of the special accounts and pooled Birr

account. The Federal Food Security Steering Committee (FFSSC) is responsible for providing advice and recommendations to MOARD to ensure the proper implementation of food security strategies and programs, including safety net programs, for conducting annual reviews of the FSP, and for assessing the performance of M&E system, including the Rapid Response Mechanism. The primary mandate of the Disaster Prevention and Preparedness Agency (DPPA) is to respond to food and the basic needs of people affected by acute, unpredictable disasters under emergency appeal circumstances. A Public Works Focal Unit is to be established in the Natural Resources Department of the MOARD which will provide technical coordination and oversight to the Public Works component at federal level. The Joint Coordination Committee (JCC) is the principal mechanism to enhance Government-Donor coordination and provides ongoing support and supervision of program implementation. The JCC currently meets on a bi-monthly schedule.

109 At regional level, the Regional Council/Cabinet review and approves both the food security and safety net annual plans and budgets submitted by woredas and the progress reports on implementation of regional safety net programs and utilization of budgets. The Regional Food Security Steering Committee (RFSSC) performs similar functions as with the Federal Food Security Steering Committee for activities implemented at regional level. The Regional Bureaus of Agriculture and Rural Development (BOARD), through the Regional Food Security Coordination Offices (RFSCO), are responsible for technical content of activities such as developing and consolidating annual implementation plans, mobilizing technical assistance from other line agencies, and reviewing progress reports and providing feedback to the implementation units. A regional Public Works Focal Unit (RPWFU) will be established in the Natural Resources Department of the BOARD in each region with responsibility for the effectiveness of the public works. This includes responsibility for consolidating public works plans, providing capacity-building, overseeing implementation, and monitoring the overall effectiveness of the component. The RFWFU will serve as secretary for the Regional Technical Coordination Committee, who is responsible for coordinating the interaction with and involvement of relevant line bureaus and other PSNP actors in all aspects of the public works program.

110. At woreda level, the woreda is the key level of government that determines needs and undertakes planning and implementation of safety net activities. The woreda council/cabinet allocates safety net resources. It also assists in resolving unresolved appeals submitted to them by the Kebele Council. The Woreda Food Security Task Force (WFSTF) reviews and recommends kebele annual safety net plans for approval, consolidates annual woreda safety net plans and budgets, participates in monitoring and evaluation of safety net activities, provide assistance to kebeles in establishing and training kebele food security task forces, and review progress reports on safety net activities. The Woreda Food Security Desk (WFSD) coordinates safety net activities. Finally, the Woreda Office of Finance and Economic Development (WOFED) ensures that the budget for the safety net program is received in a timely manner at woreda level. The Woreda Rural Development Office (WRDO) oversees the integration of PSNP with the broader FSP and the woreda rural development strategy

111. At kebele level, the kebele council/cabinet approves kebele safety net beneficiaries and related safety net plan. It also assists in establishing and ensuring effective operation of the Kebele Appeals Committee, tasked with hearing and resolving appeals regarding Safety Net matters in a timely manner. The Kebele Food Security Task Force (KFSTF) oversees all planning and implementation of safety net activities.

112. At community level, the Community Food Security Task Force (CFSTF) is responsible for identifying beneficiaries of the Safety Net Program. It also participates in the mobilization of community for participatory planning.

3. Monitoring and Evaluation of Outcomes/Results

113. The Program's overall monitoring process ensures the regular flow of information on inputs utilization and program participation. Monitoring provides regular data on the number of program beneficiaries, transfer payments, wages, public works participation and types, quality of community subprojects undertaken, and direct transfers delivered and participation in communities designed for individuals receiving this support. Food prices and food stock are also regularly monitored. FSCB's **Monitoring and Evaluation Team** has oversight responsibilities for program monitoring and evaluation.

114. Established at federal level, the **Information Center** collects data bi-weekly from about 80 woredas and ensures data consistency and dissemination. The Information Center compiles and distributes this information as dictated by the various levels of information need: operational information needs, policy level decision making needs, and specific institutional needs for both government and development partners.

115. As the cornerstone of Government's Risk Management Strategy, the **Rapid Response Mechanism (RRM)** is used to address critical implementation problems as they occur. The RRM detects problems that warrant immediate attention, and responds rapidly to resolve the problems, thus reducing any potentially serious humanitarian or other risk.

116. The Program's evaluation process will cover a sub-set of beneficiary communities selected on a sample basis from each woreda, and will entail assessments of the achievements of and constraints to program implementation and analysis of impact of program components on outcome measures. Evaluations for APL II will include beneficiary assessments, public works technical review, quantitative surveys to identify errors of inclusion and exclusion, and program impact evaluations.

117. Different modes of evaluation of the program may identify successful and innovative measures taken by communities, including inter-regional learning that can be applied to strengthen overall program performance. These will be reviewed at the regional and federal levels to be eventually disseminated to other communities (see Annex 4 for further details).

4. Sustainability

118. The PSNP is one of the Government's flagship reform programs and represents a significant transformation of the Government's strategy for addressing food insecurity in Ethiopia. The commitment to the PSNP is extremely high, in terms of support from both the highest levels of Government and the donor community, as evidenced by the harmonization of seven donors around the Government's program. Four significant challenges lie ahead. The main challenges are (a) commitment to ensuring a quality program; (b) building broad-based support for the program and its objectives; (c) defining and supporting the necessary related reforms to promote sustainability; and (d) fiscal sustainability.

119. *Commitment to ensuring a quality program:* Rapid implementation of the Program over the last two years has largely proven effective in reaching the goal of transitioning away from the annual emergency appeal system as quickly as possible. Using the new systems created under Phase I, the next phase will require significant work to improve the quality of the program. The further improvements required are not marginal adjustments but are essential if the program is to be effective in using the new systems developed to deliver the substantive benefits that represent the Program's objectives. Government and donor partners must therefore fully commit to ensuring that these quality improvements are realized.

120. *Building broad-based support for the program and its objectives:* At a broader level, sustaining local and international support for the Program over the long-term will require not

only good performance but also (i) a transparent program administration that subjects the program to public scrutiny and shows that it is fair, and (ii) evidence that the program is functioning as designed and that it is generating the results that it aims to achieve. This is at the heart of building broad-based and sustainable support for the program. Achieving this will require the development of a robust and transparent M&E system as well as a comprehensive communication strategy.

121. *Defining and supporting the necessary related reforms to promote sustainability:* Government envisages that there will always be some individuals (although not necessarily the same ones) suffering from chronic food-insecurity and in need of support. However this will be a small number relative to the current PSNP target population. If this is the case, then there is a challenge to ensure that (i) the majority of those currently in the PSNP achieve food security, and (ii) that those who are vulnerable but not currently in the program do not become chronically food-insecure. These issues directly affect the time horizon and volume of resources needed for the Program.

122. The question of graduation from chronic food-insecurity requires that the PSNP be coordinated with other relevant interventions and that these interventions be nested within broader policy reforms and rural growth strategies. Phase II of the APL series will contribute to developing better linkages with, and understanding of, other programs necessary to support graduation. At the same time, it is also necessary to avoid significant increases in the number of chronically food insecure households and therefore in the PSNP target population. The work on drought risk financing, included as a component under Phase II, will aim to significantly improve the effectiveness of support to households affected by drought and by so doing, minimize the tendency for an increasing trend in the number of chronically food insecure people.

123. *Fiscal sustainability:* The issues highlighted above all have implications for the fiscal sustainability of the program over the medium to long term, either by affecting the need for, or availability of financing. However, the PSNP also faces relatively short-term fiscal sustainability issues, which will need to be urgently addressed.

124. All donors had initially committed to a multi-annual framework, and pledged development resources for up to five years. Subsequent adjustments to the initial number of beneficiaries however, from 4.8 million in 2005 up to 8.3 million from 2007 onwards have not been met with commensurate increases in pledges for the program. Annex 7 contains the total program cost and indicative sources of financing for the Program. On current estimates there is an estimated cumulative shortfall in financing for the program through 2009 of up to US\$ 195 million⁵ The World Bank has increased its financing by around US\$ 43.7 million⁶ as a contribution to addressing the shortfall, but existing donor partners will need to review current commitments and efforts will need to be made to bring additional donors into the program. Discussions are currently being held to finalize plans for a consultative group meeting for next year with this in mind.

5. Critical Risks and Possible Controversial Aspects

125. Before the start of implementation, five critical risks faced by the First Phase of the Productive Safety Net Program have been identified. These included: (i) donor commitment; (ii) implementation capacity constraints; (iii) institutional coordination; (iv) impact of grants;

⁵ The actual program deficit depends on four key factors, which will change over time (i) number of program beneficiaries; (ii) expenditure rate of program contingency, (iii) cash wage rate for the program, (iv) portion of the program funded with cash.

⁶ This came channeling project cost savings from the Emergency Demobilization and Reintegration Project to the PSNP

and (v) leakage. An overall assessment would suggest that after almost two years of program implementation, ongoing dialogue, implementation experience, and additional capacity building have reduced these risks in almost all cases. Phase II of the Program however must continue to contend with these, as well as additional risks relating to the achievement of the longer-term development objective of the Program.

	Description of Risk	Probability	Mitigation
1.	Program resources may be manipulated for personal ends or special interests.	M	<ul style="list-style-type: none"> The following measures are being strengthened: financial transparency (e.g., PSNP woreda budgetary data/beneficiary numbers published on MOFED website and posted in public areas in woredas); independent appeals/redress procedures; fiduciary controls as verified by roving audit and annual audit; adequate management and staffing; dissemination of program rules and procedures; beneficiary assessment on perceptions and satisfaction with services; and Parliamentary oversight. In addition, a strong media/communications campaign will be developed and implemented. Further, as part of the roving audit function, a review of the effectiveness of the appeals mechanism will be conducted on an ongoing basis.
2.	Existing and new donors will not be in a position to confirm their long-term commitment and financing to enable the Program to continue assistance to an estimated 7-8 million target beneficiaries.	S	<ul style="list-style-type: none"> PSNP and FSP to demonstrate its effectiveness in assisting chronically food insecure households. Information flow on program performance and outcomes significantly improved. Sustained focus on donor harmonization and collaboration under the leadership of the Government. Consultative Group Meeting to mobilize additional funding for the Program to be carried out in 2007
3.	Limited capacity of Regions/woredas impedes the efficiency and effectiveness of the program.	S	<ul style="list-style-type: none"> PSNP will provide tailored technical training/skills upgrading to improve quality of public works. FSCB to strengthen coordination, planning, M&E/MIS systems, including rapid response mechanisms. PIM revised to ensure clarity and understanding of roles, responsibilities, and available budgets for program implementers at local level. Availability of technical support documentation increased at local levels. FSCB to systematize ways of learning from experience, especially across Regions. Aligning of PSNP budget and

Description of Risk	Probability	Mitigation
		planning cycle with woreda budget cycle.
Weak coordination between FSCB and DPPC lead to gaps in delivery of critical safety net interventions.	M	<ul style="list-style-type: none"> DPPC and FSCB to regularly undertake joint planning, coordination, and supervision of PSNP (and emergency appeal operations).
Use of overly ambitious household graduation targets may result in increased household vulnerability.	M	<ul style="list-style-type: none"> FSCB is developing an empirical evidence-based definition of graduation, status at baseline, and plausible graduation scenarios, which will guide any future graduation processes in the program. Regions have been instructed not to exclude beneficiaries that have assets newly acquired through credit. FSCB will clarify to Regions that beneficiaries have guaranteed access to the program for several years.
Payments in cash could potentially lead to localized inflation.	M	<ul style="list-style-type: none"> Targeted analysis will be undertaken to identify ways in which the PSNP-grain market interface can be improved to facilitate a better supply-side response. An annual review of wages will ensure that transfer levels are adjusted as necessary to maintain purchasing power. Woredas also have recourse to the contingency budget to address temporary price spikes.

L=Low; M-Medium; S=Substantial; H=High

6. Loan/Credit Conditions and Covenants

126. As part of Appraisal the Government of Ethiopia provided evidence of the following, in a form satisfactory to the Association: a revised draft of the Project Implementation Manual (PIM), incorporating measures agreed during Pre-Appraisal; a summary note on lessons learned and design changes for Direct Support activities; update of the MOFED web-site with PSNP information for 2006 on resource allocation, inter-governmental transfers, and beneficiary numbers woreda by woreda; and PSNP financial management staffing requirements at the regional and federal levels. In addition, given the significant changes made to the Productive Safety Net Program in terms of phases, duration and components, the Government has also provided a revised Letter of Sector Development Policy. Finally, in order to improve the timeliness of program implementation and payments to beneficiaries, the Government made early disbursements to Regions in November 2006 at a level adequate to enable Regions and woredas to commence PSNP activities by January 2007

6.1 Conditions of Effectiveness

- Establishment of Public Works Focal Unit in the Natural Resources Department in each Region; ensuring at least two technical staff and the Unit head are in place in the unit; and agreement of budget allocation for the unit from PSNP resources.
- The Regional governments to issue directives to the woredas to re-inforce the grievances and redress system for the PSNP at kebele and woreda levels, by instituting adequate documentation and follow-up, as well as reporting to the Regional level.
- The Recipient has furnished to the Association a satisfactory final report in respect of the 2005 PSNP annual audit, together with a remedial action plan, if needed, both satisfactory to the Association.

6.2 Conditions of Disbursement

- For Component 2, submission to IDA of a Drought Risk Financing Manual satisfactory to IDA indicating the criteria to be used, institutional responsibilities, contingency planning process, and timeline for determining resource allocations to program woredas; and a workplan satisfactory to IDA showing the specific woredas and number of beneficiaries by woreda to be covered with these resources.

6.3 Dated Covenants

April 2007 Semi-Annual Review

- Government FSP budget and PSNP budget, disbursement data and beneficiary numbers by region and woreda to be publicly disseminated at woreda, Regional and Federal levels.
- PSNP objectives, rules, and procedures to be disseminated at kebele level via radio, posters, etc.
- Develop and agree an empirical evidence-based operational definition of household graduation out of chronic food insecurity.
- Review implementation of recommendations from the Direct Support study.
- Semi-annual Public Works Review completed and recommendations identified.
- Implementation of measures to align the PSNP budget cycle with Ethiopian fiscal management and planning calendars.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

September 2007 Semi-Annual Review

- For Component 2, submission to IDA of a rulebook indicating the criteria to be used, institutional responsibilities, contingency planning process, and timeline for determining resource allocations to program woredas;
- Semi-annual Public Works Review completed and recommendations identified.
- Analysis by CGAP of FSP micro-finance dimensions completed and findings discussed at a stakeholder forum organized by the FSCB.
- Based on agreed definition and indicators of graduation, develop Woreda/Regional guidance.
- An assessment completed of existence, quality and use of PSNP kebele watershed management plans in the form of maps.
- Beneficiary assessment completed regarding satisfaction with PSNP and OFSP services.
- Study completed on potential for market linkages between PSNP and grain markets in cash grant-receiving woredas.

- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

April 2008 Semi-Annual Review

- Continued dissemination of Government FSP budget and PSNP budget, disbursement data and beneficiary numbers by region and woredas.
- MOARD (Bureau of Natural Resources) to complete pilot on GPS/GIS-based watershed maps in PSNP areas.
- Semi-annual Public Works Review completed and recommendations identified.
- Follow-up to baseline household survey completed and data analyzed.
- A technical audit to be completed of the kebele watershed management plans to assess quality and, where necessary, to provide feedback on corrective actions.
- Verification that all Program woredas have developed drought contingency plans in kebeles implementing the PSNP as well as those that are not.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP

September 2008 Semi-Annual Review (Mid-Term Review)

- Follow-up beneficiary assessment completed regarding satisfaction with PSNP and OFSP services.
- Government to develop a paper on the long-term institutional framework for the Direct Support sub-component.

April 2009 Semi-Annual Review

- FSP and PSNP resource allocation, disbursement data and beneficiary numbers by region and woreda to be publicly disseminated.
- Semi-annual Public Works Review completed and recommendations identified.
- Further follow-up to baseline household survey completed and data analyzed.

September 2009 Semi-Annual Review

- MOARD to complete GPS/GIS-based watershed maps in PSNP areas.
- Semi-annual Public Works Review completed and recommendations identified.

D. APPRAISAL SUMMARY

1. Economic and Financial Analyses

127 The economic benefits of the PSNP result from the impact of transfers on households and from the value of community assets created through the public works component.

128. *Firstly*, the PSNP contributes to the reduction of extreme hunger and malnutrition. The provision of grants to chronically food insecure households ensures that short-term consumption shortfalls are met. By ensuring that these resources are provided in a timely manner the Program allows households to avoid the sale of productive assets to meet consumption shortfalls. Productive assets are central to both improving current food-insecurity (such as avoiding selling oxen that are used for farm production) and to reducing the inter-generational transmission of food insecurity (by avoiding the need to remove

children from school to supplement household income or to reduce consumption that can lead to increased malnutrition).

129. *Second*, by providing households with predictable transfers over several years, program support is expected to lead to an increased willingness to adopt higher risk/return strategies with regard to household production decisions. This would allow increased investment in inputs and seeds and also an increased readiness to access other opportunities for livelihood diversification available through credit.

130. *Third*, the Program supports the rehabilitation of the environment by adopting an integrated watershed management planning approach that focuses on soil and water conservation measures. These include, but are not limited to terracing, bunding, gully control, area closures, reforestation, small scale irrigation, and water harvesting. It is expected that these measures will, in turn, lead to improved agricultural productivity. Although the focus of the public works component is to build community assets, there is an explicit provision for the community to assist in enhancing the productivity of lands owned by of specific target groups who are exceptionally vulnerable, such as labor poor female-headed households.

131. *Fourth*, the PSNP is expected to reduce isolation and improve access to basic public services through the building of rural feeder roads, repair and construction of schools and health clinics, and by making safe drinking water available. These activities are integrated into the larger woreda development planning process.

132. *Finally*, the PSNP will contribute to market development. The introduction of grants instead of food will serve to increase purchasing power and demand for food and other goods locally, which is expected to stimulate different segments of the food marketing chain.

133. In the long-run it is expected that many of these benefits will have complementary effects and are part of building a broader rural growth strategy in the areas in which the Program operates.

134. The overall resource envelope projected for the PSNP is about US\$225 million per year. This is equivalent to approximately 1.73% of GDP. This is a very sizable investment. It should be recognized that much of this financing however does not represent “new” funds, but is largely replacing resources Ethiopia was already receiving on an annual, emergency basis. However, the PSNP aims to transform the use of these resources from pure transfers, which they have historically been, to productive resources. The size of these investments and their significance for woredas relative to other resources available for investment in local services highlight the importance of ensuring that these resources are fully integrated into woreda planning processes and are leveraged to the maximum extent possible.

2. Technical

135. APL II will build upon the technical groundwork laid during APL I. This work included the development of a Program Implementation Manual (PIM) and related Operational Summary and detailed subject-specific guidelines on beneficiary targeting, community based participatory integrated watershed management, financial management, procurement, and monitoring and evaluation. The PIM has been revised and an Addendum has been completed and finalized. The Addendum provides further clarifications, modifications, and/or strengthening of implementation modalities, based on the implementation experience, lessons learned, and key recommendations of studies completed under Phase I. In addition, several operational guidance notes are being developed to support effective program implementation, especially at lower levels.

136. Prior to the launch of the Program in 2005 and 2006, Government conducted training programs on the different guidelines using a cascade training approach. Perhaps most significant of these has been the annual community based participatory integrated watershed management training, which was delivered in 2005 to over 11,000 Development Agents. Given high staff turnover at woreda and kebele levels Phase II will place further emphasis on institutionalizing training in all aspects of program management through the development of a rolling training program and calendar.

137. With the aim of enhancing technical planning and supervision of public works, Natural Resources personnel at federal and regional levels will be incorporated more formally into program implementation and supervision. A key task will be to develop a robust monitoring system for the public works component of the program.

138. The Program continues to receive strong technical input and supervision. Several joint Government-donor working groups focus on the development of different elements of the Program, namely capacity building, monitoring and evaluation, public works training, and pastoralist safety nets. There are bi-weekly joint coordination committee meetings and bi-annual joint review and implementation support missions.

3. Fiduciary

139. *Financial management.* The recently completed Joint budget and Aid review (JBAR) in October 2006 and the Fiduciary Assessment (FA) of 2004/05 show that Ethiopia has made significant progress in strengthening public financial management in recent years. The JBAR review confirmed that Ethiopia met 7 of the fourteen indicators related to the planning, budgeting and reporting systems. The FA, which was completed in early 2005, notes that considerable progress has been made in implementing FM reforms in both federal and regional level administrations. Though most of the recent diagnostic works show an improvement in Public Financial Management, there are areas of weakness in terms of timeliness of fiscal reporting that require attention. Overall, however, the control environment is good and there are no accountability issues.

140. The overall financial management responsibility for this project rests with MOFED. BOFEDs, at the regional level and WOFEDs, at the woreda level, will be responsible for recording and reporting the financial transactions of the program. As per the recent capacity assessment, there is a staffing gap at each level. MOFED has indicated that the number of accountants and cashiers required at all levels for the PSNP is 619. Of these, 512 accountants and cashiers at woreda, region and federal levels have already been hired and are in place for the PSNP. MOFED will complete the recruitment process in the next few months and will report on the financial management staffing situation for the Program every six months.

141. Under APL I the Government had agreed to introduce an additional fiduciary safeguard through an independent “roving audit” of woreda-level PSNP financial transactions. The 2005 roving audit identified some weaknesses and the Regions have taken corrective action on the issues identified. The roving audit for 2006 is underway. The Government has also committed to continuing with this practice under APL II as well.

142. The established public financial management system will be used to channel funds to woredas and obtain reports from woredas and regions. The use of the country financial management system reduces the transaction cost for the government and provides additional control over the program financial transactions. However, the team observed some weaknesses in using the country system for the first phase of the program. The notable ones are delays in financial reporting and submission of audited program accounts. The shift to channel 1 (MOFED-BOFED-WOFED) from channel 1.5 (MOFED-MOARD-RFSCB-

WOFED) at the beginning of 2006 is expected to have a positive effect on some of the weaknesses observed.

143. MOFED has designated a separate foreign exchange account at the National Bank of Ethiopia for each of the donors. MOFED has also opened a pooled Birr account to transfer money from the designated accounts and then transfer money to regions. The disbursement method for the program is report-based disbursement.

144. According to the team's assessment, the overall financial management risk rating is substantial (detailed risk rating indicated in Annex 9), to mitigate which significant additional safeguards (e.g. dedicated FM staff, roving audits) have been incorporated into the program.

145. *Procurement.* Procurement will follow the pattern developed under APL I, with foreign procurement involving major purchasing packages under ICB handled at federal level and the bulk of procurement for small purchases and public works handled at Regional and sub-Regional (woreda) level. The PIM for the PSNP was modified at APL II appraisal to make implementation more efficient at woreda level. In particular, the revised PIM indicated the option of using higher thresholds for shopping procedures, the option of larger packaging at Regional level, the use of stockage of construction materials and cement at regional level, the need for early conclusion of pre-procurement activities such as design and technical specifications and the earlier execution of capacity building programs.

146. Specific Procurement Guidelines have been prepared for the PSNP and training provided at every level. Procurement efficiency for APL II is expected to improve given the recruitment of additional procurement staff under the FSCB and the use of procurement trained staff at woreda level.

4. Social

147. Remoteness characterizes rural life in Ethiopia. About 85% of the rural population live in the same woreda as where they were born. The PSNP covers 7.23 million food insecure people in Ethiopia (8.3 million people with the inclusion of Somali region). The recent study on Targeting under APL I acknowledged that the success of targeting differs between different cultural and governance contexts. Woredas lack guidance in how to select kebeles for inclusion in the program so that some woredas target few beneficiaries across all their kebeles, whereas others operate the PSNP in fewer kebeles but with far higher coverage. There are reports that competition for inclusion in the program is causing social pressure in some areas.

148. The experience with participatory approaches in the selection process under APL I has been mixed, although the targeting study showed that the decision is predominantly taken by the kebele FSTF and lower. Women are encouraged to participate in FSTFs, although the evidence shows that they are poorly represented. Women comprise half of the PW beneficiaries and are more likely to be DS beneficiaries. In acknowledgement of the work burden on women, the PIM allows for PWs to be carried out on the land of female-headed labor-poor households. Light PW activities appropriate for women have been undertaken in some woredas.

149. The selection and design process for public works incorporates provisions designed to minimize social tensions and ensure social sustainability. Implementation of the Environmental and Social Management Framework (ESMF) will ensure that public works involving any form of physical relocation of residents or involuntary loss of assets or access to assets are not approved under the PSNP. Public works within, or in the vicinity of, a cultural heritage site, including community sites of cultural importance, are avoided whenever possible. If the site cannot be avoided, the matter is referred to the regional EPA for further

examination and subsequent modification or disapproval of the public works. In addition, the ESMF screening process, which is mandatory for all public works, assesses and minimizes potential impacts such as increased pressures on human settlement, disturbance to religious sites, increased social tensions over asset allocation, and the capacity to enforce measures such as the prohibition of open grazing.

150. A Pastoral PIM which accommodates the characteristics and needs of pastoral communities will be developed following sufficient preparatory studies, and PW activities suitable for pastoral areas will be piloted during APL II. Based on the outcomes of the pilots, procedures in the ESMF applicable to pastoral communities will also be further developed. Coverage of the pastoral PIM will be extended to include all pastoral areas incorporated in the PSNP, including pastoral communities in Oromiya and SNNPR, which are currently using the general PIM.

151. Under APL II, there will be strengthening of program governance by enhancing existing targeting and grievance procedures as well as ensuring maximum transparency in program procedures.

152. Training in gender and HIV/AIDS is incorporated into the training package and will continue to be so under APL II. The community FSTF will work in close collaboration with Anti-AIDS committees to raise community awareness. This will be furthered in plans for a communications initiative.

5. Environment

153. One of the key objectives of the PSNP is to address the underlying causes of food insecurity, to which land degradation is universally agreed to be a major contributor, particularly in highland areas. Thus the design of the PSNP public works program, is intended to have environmentally positive impacts. Indeed, these activities, which include, for example, soil and water conservation, land reclamation and improvement of roads and bridges, are expected to constitute a vehicle for significant environmental transformation and enhanced productivity.

154. It is nonetheless common knowledge that past mass-mobilization efforts in environmental rehabilitation in Ethiopia have frequently failed or have been abandoned, as a result of which the environment has returned to its degraded state. Such adverse outcomes occur particularly if their locations or designs do not follow good environmental practice, or if they are incompatible with optimum overall management of the watershed.

155. To address such issues, the approach to the environmental performance and sustainability of the public works program is three-pronged:

- (i) Public works are derived from a community-based approach to integrated watershed management, a process which forms the basis of the awareness-creation and training program, supported by a budget to provide technical and material inputs. Moreover, the PSNP public works are also viewed as contributing to the Nile Basin Initiative (NBI);
- (ii) Standards to be followed in the design and implementation of the individual public works are established in Community-Based Watershed Management guidelines published by the MOARD, which are made available to concerned woreda staff and Development Agents; and
- (iii) The process of selection and screening of public works for possible negative environmental impacts, and ensuring that appropriate mitigating measures are incorporated in the design as appropriate, is in accordance with Ethiopia's *Environmental Impact Assessment* proclamation. The process is documented in the

ESMF produced by the Government. The ESMF is incorporated in the awareness-creation and training programs. Responsibilities for its implementation and monitoring are designated at federal, regional, woreda and kebele levels in the *ESMF Implementation Guidelines*.

156. The public works review under APL I indicated that planning and implementation of the public works was moderately satisfactory, but that there was a need to strengthen implementation of the ESMF to ensure that standards continue to improve. The necessary procedures and budgets for ensuring enhancement of the environmental performance of the public works are incorporated in the design of the PSNP Phase II. It is considered that with revised roles and responsibilities, and supported by awareness-creation and training in ESMF implementation and monitoring; the woreda technical staff will have the capacity to undertake the environmental screening of the public works required by the ESMF. To reflect these changes, the ESMF has been updated by the Government for APL II and re-disclosed in country. The ESMF now specifically reflects clarified roles and responsibilities vis-à-vis the implementation of the ESMF, which includes the functions of the new Federal and Regional Public Works Focal Units, located in the Department of Natural Resources of MOARD.

157. Since it is not intended that the PSNP will include public works necessitating a separate Environmental Impact Assessment (EIA), it is considered that with adequate awareness-creation and training, the Regional EPAs will have sufficient capacity to review and determine, in the few cases that may arise, whether an EIA is required, and to make arrangements for such an EIA if necessary. It is further considered that technical advice from the regional EPA and sector staff, and modest budget support from the PSNP administrative budget, the woreda ARD desk would have the capacity to have the EIA conducted.

6. Safeguard Policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[X]	[]
Physical Cultural Resources (OP/BP 4.11)	[]	[X]
Involuntary Resettlement (OP/BP 4.12)	[]	[X]
Indigenous Peoples (OP/BP 4.10)	[]	[X]
Forests (OP/BP 4.36)	[]	[X]
Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP 7.60)*	[]	[X]
Projects on International Waterways (OP/BP 7.50)	[X]	[]

158. Three safeguards are triggered. (i) Although a large number of public works will be implemented, they are generally micro-level, and it is expected that any negative impacts will for the most part be site-specific; few if any of the impacts would be irreversible, and in most cases mitigating measures can be readily designed. The EA Policy OP 4.01 is triggered, and the project is designated Category 'B'. Also under OP 4.01, in case the public works should include clinic construction or rehabilitation, a Medical Waste Management Guide for Rural Health Clinics is required to be developed and disclosed. This has been done. (ii) The Pest Management policy OP 4.09 is triggered as there is a possibility of small-scale irrigation projects adopting the use of pesticides. In such cases, the policy requires the development and disclosure of Integrated Pest Management guidelines, which has been done. (iii) The International Waterways policy OP 7.50 is triggered because some of the public works are likely to be small-scale irrigation projects located in watersheds of three international

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

waterways. For APL I, Government and the Bank notified the concerned countries in accordance with this policy, covering the five-year period of APL I and APL II. Since water abstraction rates are within the notified levels, there is no need for further notification for APL II.

159 The ESMF public works selection and screening procedures incorporate measures for avoiding cultural heritage sites, so OP 4.11 is not triggered. Public works selection criteria have also been designed to exclude any sub-project that requires involuntary resettlement, and thus OP 4.12 is also not triggered.

7. Policy Exceptions and Readiness

160. **Policy Exception.** There are currently two outstanding audits relevant to the Productive Safety Net Program (PSNP): (i) an overdue audit as of September 30, 2006 for Phase I of the PSNP (APL I) for the period ending December 30, 2005, for which IDA provided a Credit and Grant equivalent to US\$ 70 million in 2004; and (ii) an outstanding audit for the IDA-financed Health Sector Development Program Support Project (HSDPSP) for the period ending June 30, 2005 that has been due since January 2006, for which IDA provided a credit of US\$ 100 million equivalent in 1998.

161. The World Bank has received a letter from Government confirming that both audits are at an advanced stage of completion. The audits are expected to be submitted to the Association prior to the proposed date of Board discussion for the PSNP APL II.

162. In order to avoid any delay in processing of the proposed project, however, a waiver was sought, and granted, to OP 10.02 to allow Board Presentation of APL II. The waiver has been granted, with the submission of the final report of the 2005 PSNP annual audit (together with a remedial action plan if needed) added as a condition of effectiveness. Moreover, the measures being undertaken to strengthen financial management staffing for the PSNP have been incorporated in the Project Appraisal Document (see Annex 9).

163. **Readiness.** The main design parameters and operating systems for the Project were established under APL I. The design for APL II was strengthened in numerous ways, particularly with respect to program transparency, social accountability, and appeals procedures; enhanced environmental impact, technical quality, and sustainability of PSNP public works; and large recruitment of staff for PSNP accounting and financial reporting. The Project is deemed ready for implementation, subject to fulfillment of the conditions for effectiveness.

Annex 1: Governance Dimensions

ETHIOPIA: Productive Safety Net APL II

164. As with any public program implemented through different tiers of administration, with specific targeting criteria, involving millions of beneficiaries and a large amount of resources, the PSNP requires strong checks and balances to protect it from manipulation for personal ends or special interests, political or otherwise. Establishing and upholding the program's reputation for fairness and performance is particularly important in the contested political environment that has characterized Ethiopia since the general elections of May 2005. The Program's ability to demonstrate its lack of political or ethnic bias or systematic leakage is also critical to sustaining international donor support despite competing demands for scarce development resources. The PSNP needs to demonstrate that it is functioning as designed, and that it is generating the results that it promises. This not only requires good performance, but also a commitment to transparency and willingness to subject the program to public scrutiny.

165. **Program Targeting.** One critical dimension is the fair and transparent distribution of program resources in terms of who has access to the program and who does not. An independent review of program targeting was undertaken in 2006 (by IDL Group). It indicates that considerable efforts are being made by local government officials and communities to apply the PSNP targeting guidelines – which stipulate that households having at least 3 months of food insecurity year after year should be included – as well as they can. There are, inevitably, problems, errors, and room for improvement, but in general, the review did not find any systematic political or ethnic bias in the selection of beneficiaries. The system for appeals and complaints laid out in the Program Implementation Manual (PIM) is formally in place in most woredas, but its functioning is hampered by various factors – e.g. the overlap between targeting and appeals bodies in some kebeles. Records of appeals are not maintained and are not passed to higher levels of Government for oversight. Potential beneficiaries are also not well-informed about their rights or the appeals process.

166. On the positive side, the names of identified beneficiary members are read out at public community meetings and the opportunity exists for challenges to be lodged at the time; also in some woredas separate appeals bodies have already been established. The study notes that unfair inclusion and exclusion of individuals have been raised through these public meetings and appeals procedures and remedial action taken. On the basis of the findings of the Targeting Study, the Government has incorporated the following dimensions into the PIM for implementation in the PSNP starting in 2007: widespread dissemination of PSNP targeting rules and appeals procedures in local languages and visually; separation of membership of the targeting structure and the appeals structure; and establishment of new guidelines for documentation and follow-up for appeals at the kebele, woreda and regional levels. Further, the roving audit function (see below) will now include a regular review of the effectiveness of the appeals process and dissemination of best practice across kebeles and woredas.

167. Moreover, the household survey fielded by the study finds that PSNP beneficiaries in the focus woredas had substantially lower incomes, farmed less land, and owned a lower value of assets than non-beneficiaries. They also had less labor and higher age-based dependency ratios, and were more likely to have suffered food shortages. Notwithstanding these encouraging findings, the study also highlights that given the pervasiveness of poverty in program woredas and inevitable budget constraints, there is social tension around the exclusion of households who are perceived as deserving assistance.

168. **Improving Fairness.** Thus far, the PSNP has provided 6 months of assistance to all public works beneficiaries regardless of whether they had less (or more) need. This has

undoubtedly contributed to a sense that the PSNP unfairly privileges some households, while excluding others at a similar level of poverty. Under the proposed second phase of the Program, community targeting committees will be assessing more carefully whether the household requires a full 6 months of assistance or can fall into an alternative 3-months assistance category. Nonetheless, since the opportunity cost of labor is so low in most rural localities, it can be expected that there will continue to be people who are not necessarily poor but who seek to be included.

169 Transparency and Local Accountability. The Government has committed to strengthen overall transparency of its program. Regarding public disclosure of key data on program performance, the Government has already published on the web information on the woreda-by-woreda PSNP resource allocations for 2006, and will update it with 2007 data and monthly updates regarding transfers to Regions/woredas. The safety net budget amounts and public works plans will also be posted in each woreda and kebele for public review. A communication campaign is planned to disseminate information at local levels on program objectives, targeting criteria, and appeals procedures. By the end of 2007 the Program also aims to complete an assessment of beneficiary satisfaction with PSNP services.

170. Roving Audit Function. The decentralized implementation of the PSNP has posed significant challenges in terms of establishing adequate fiduciary oversight. The Program uses Government's established public financial management systems and controls at Federal, regional and district levels. Given its unique need to make innumerable small payments to household beneficiaries in this decentralized structure, under APL I Government and partners had agreed to institute an additional review via an independent roving audit which would visit 40 woredas each year. The 2005 audit has been completed and the 2006 audit is underway. The first roving audit finds no systematic evidence of leakages, and instead shows that (i) funds are being used for the purposes intended and (ii) the fiduciary controls the program has put in place are proving important in providing additional oversight of program finances. The problem areas have been communicated to all the Regions and remedial action is being undertaken. The roving audit function agreed under APL I will be enhanced for APL II. It will have three components – financial management (as under APL I), procurement, and the appeals process – all at woreda level, and each conducted by a specialized team with separate terms of reference.

171. Monitoring and Evaluation. The FSCB has established an Information Center which collects key PSNP performance data from a sample of about 80 woredas on a weekly basis. It has also taken the first steps in constituting a full beneficiary database by piloting computerization of payrolls. Further development of the M&E system is essential, especially on the evaluation side. A key component is a full impact evaluation to address questions of program effectiveness. The Central Statistical Authority (CSA) has completed a baseline survey to this end and analysis is being done with assistance from IFPRI (details on the M&E system are in Annex 4).

172. Parliamentary Oversight. The Government already reports on the PSNP to the Rural Development Committee of the Federal Parliament. Given the recent creation of the new committee on Public Accounts – which is chaired by a member of the Opposition – the PSNP will also be subject to post-audit review by this Committee.

Annex 2: Country and Sector or Program Background

ETHIOPIA: Productive Safety Net APL II

173. This Annex provides an overview of the key findings of four studies carried out in 2006 in the regions of Amhara, Oromiya, SNNP and Tigray on the Productive Safety Net Program. These include: (i) regional public works review; (ii) study on targeting; (iii) study on trends in PSNP transfers to beneficiary households; and (iv) study on policy, program and institutional linkages. Key recommendations of these studies have been incorporated in the design and development of the second phase of PSNP (APL II).

174. **Regional Public Works Reviews** were carried out to assess the overall performance and outcomes of the implementation of PSNP public works (PW) and to identify lessons which can be used to enhance performance in the future. This review focused on eligibility, appropriateness, effectiveness, quality, and sustainability of public works.

175. Positive results have been achieved owing to the responsiveness of PW projects to community felt needs and the high motivation of farmers and development agents. PW projects have enhanced awareness at all levels on watershed based conservation works, facilitated the creation of community assets, provided employment opportunities for resource poor households, and helped reduce food shortage/hungry period for the majority of PW participants.

176. The review also identified problems during implementation. These include: high turnover of staff; inadequate technical support provided to woredas; untimely delivery of PSNP resources; insufficient distribution of project manuals and guidelines required for implementation of public works; low level of technical skills of field staff; weak planning, monitoring and evaluation of public works, including absence of comprehensive watershed development plan and project operation and maintenance plans at lower levels.

177. Some of the lessons learned reveal that: (i) classification of woredas to low, medium and high capacity does not lead to effective and smooth implementation of the PW projects; (ii) zonal staff have not been sufficiently recognized as resources for implementation; (iii) communities accept and are ready to replicate watershed based conservation approach; (iv) no special consideration in making PW projects gender-sensitive; and (v) planning and implementation of public works projects do not generally follow principles of integrated watershed management.

178. **A Study on Targeting** was carried out to provide recommendations for strengthening the overall targeting procedures, based on an assessment of the degree to which the program is effectively targeting eligible beneficiaries, the extent to which errors or problems are occurring; the effectiveness of the appeal system, and key lessons learned.

179. Based on the key findings of this study, several recommendations clustered according to the following topics have been identified: (i) the need for better integration of public works and direct support targeting; (ii) application of temporal targeting to support graduation; (iii) reducing minimum age for PW registration from 18 to 16 years, to ensure that children are not employed and that public works participation does not prevent or interrupt children's school attendance; (iv) strengthening the retargeting and the registration period; (v) strengthening the appeals process; (vi) strengthening the rapid response mechanism; (vii) guarding against possible political use of the PSNP; and (viii) refocusing geographical targeting where the number of kebeles covered within the PSNP woredas are reduced and resources concentrated on fewer communities, while also providing technical guidance to woredas for targeting kebeles.

180. **The Study on Trends in PSNP Transfers within Targeted Households** analyzed cash and food transfers delivered by PSNP at two levels: trends within households (economic behavior of beneficiaries; and market (prices and supplies of food and other commodities) trends.

181. Findings revealed: (i) differences in the structure of PSNP beneficiary and non-beneficiary households, which suggest that certain demographic criteria might have been used in targeting households for PSNP; (ii) PSNP was well targeted, using labor constraints as targeting criteria. (iii) PSNP appears to have accurately targeted households who are engaging in activities that generate low returns and are pursued mainly by poor people; (iv) households receiving direct support from PSNP had considerably lower average income and asset values, owned and cultivated less land than households participating in PSNP public works; public works participants are poorer in both incomes and assets than non-beneficiary households and cultivate less land; (v) “cash only” PSNP recipients report higher current asset values to “food only” and mixed “food plus cash” beneficiaries; (vi) the largest group experiencing a decline in asset value is the non-beneficiary household group; (vii) high level of exclusion error; (viii) PSNP appears to have targeted households well, according to several indicators of food insecurity that were collected in the household survey; (ix) PSNP transfers did not provide complete protection against hunger and rationing in 2005 as transfers were either too small or unpredictable; (x) beneficiaries are significantly more likely to have experienced an improvement in well-being over the last year than non-beneficiaries; (xi) overwhelming majority of beneficiaries consumed all the food they received at home; a significant minority of beneficiaries sold some of their PSNP food and consumed the rest; and (xii) “cash transfers” are used in a much more diverse way than are food rations.

182. **The Study on Policy, Program and Institutional Linkages** assessed the degree to which beneficiaries access Government/donor programs and services in conjunction with the PSNP, and whether there are the necessary linkages across programs required for graduation of the chronically food insecure and to formulate a set of recommendations on ways in which these linkages could be strengthened.

183. Overall, findings of the study reveal that there are significant benefits from PSNP and food security packages that potentially can lead to graduation. However, there are additional important wider enablers of graduation that could significantly increase the prospects for households to move out of food insecurity and poverty (e.g. improving service delivery to enable households to deal with shocks, enhancing human capital, and responding to increased demand resulting from the PSNP and other food security packages). Important questions remain about whether public works can be implemented in a more strategic way in that it becomes an enabler of graduation.

184. The study’s analysis of supply and demand findings provide four key messages: (i) Government’s strategy to achieve graduation (PSNP plus Other Food Security Programs (OFSP)) has potential as a mechanism; (ii) “graduation equation” will only work if the PSNP and OFSP are improved in terms of their concept, design, and implementation; (iii) the graduation equation should not be regarded as the only mechanism; the question of what else might enhance effectiveness either as a substitute or complement to PSNP + OFSP remains; and (iv) joining up of programs to get graduation impacts is difficult if the policies and programs are not themselves joined up in the policy hierarchy (e.g. linkages that worded offices in particular as expected to maintain are not articulated at policy level.

Annex 3: Major Related Projects Financed by the Bank and/or other Agencies

ETHIOPIA: Productive Safety Net APL II

185. **The Public Sector Capacity Building Project (PSCAP)** (, US\$ 100 million Credit. Date of approval: May 11, 2004; Effectiveness: November 22, 2004; Closure: July 7, 2009) was approved in May 2004. PSCAP supports Government's efforts to improve state-society relations in three ways—improving the scale, efficiency, and responsiveness of public service delivery at the federal, regional, and local level; empowering citizens to participate more effectively in shaping their own development; and promoting good governance and accountability. PSCAP complements the largely equity-driven general purpose “block” grants and food security transfers to regions with a performance-oriented capacity building transfer to help sub-national authorities achieve their institutional transformation goals. (*Latest DO rating: Satisfactory; IP rating: Satisfactory*)

186. **The Protection of Basic Services Project (PBS)** (US\$ 215 million Grant. Date of approval: May 25, 2006; Effectiveness: June 2, 2006; Closure: June 30, 2008) has established a framework for decentralized service delivery and local accountability in basic education, health, agricultural extension and water and sanitation sectors, providing resources through the inter-governmental block grant system. The Government has committed – and followed through with these commitments – to release inter-governmental fiscal data to the public in various forms in order to improve financial transparency. Several of these measures are now being extended for adoption under the PSNP as well (e.g. budget disclosure at local levels and through the web, a beneficiary survey of perceptions on services). The Roving Ombudsman initiative for the PSNP is expected to be financed under PBS Component 4 on social accountability. The PBS is co-financed by DFID, the EC, Irish Aid and the Netherlands at present, with parallel funding by the AfDB. Other partners are also considering financing the PBS. (*Latest DO rating: Satisfactory; IP rating: Satisfactory*)

187. **The Emergency Drought and Recovery Project (EDRP)** (US\$ 60 million Grant. Date of approval: March 27, 2003; Effectiveness: May 30, 2003; Closure: December 31, 2006). Around 8.3 million people in Ethiopia are chronically food insecure. The 2002-3 drought put an estimated 10 million additional people at risk of starvation. The transitory victims of the drought risked falling permanently into food insecure status as many sold their productive assets in order to survive. To respond, in FY03, the Bank delivered an Emergency Drought Recovery project until December 2006 to enable Government to help affected families survive the emergency. The new component on ex-ante contingent drought financing in the PSNP APL II is intended to replace the ex-post emergency drought recovery projects such as the EDRP (*Latest DO rating: Satisfactory; IP rating: Satisfactory*)

188. **The Food Security Project (FSP)** (US\$ 85 million IDA Credit. Date of approval: May 30, 2002; Effectiveness: November 26, 2002; Closure: June 30, 2009) is a community-driven development project to help vulnerable, food insecure communities increase their incomes, build assets, lower the real costs of food and improve nutrition levels. In contrast to the PSNP, which focuses on household asset-protection and community asset creation (including large-scale environmental rehabilitation), the Food Security Project focuses on creating household assets. Thus, the two projects have complementary rather than overlapping mandates. The Food Security Project operates in around 74 food insecure woredas in Amhara, Oromiya, Tigray and SNNPR. The two project teams are also working closely together in dialogue on the overall M&E system for food security and will provide joint technical support to the Government Food Security program over the next few years. The Food Security Project is co-financed by the Canadian and Italian governments. (*Latest DO rating: Satisfactory; IP rating: Satisfactory*)

189. **The Pastoral Community Development Project (PCDP)** (US\$ 30 million Grant. Date of approval: May 30, 2003, Effectiveness: September 30, 2003; Closure: December 31, 2008), delivered in FY03, aims to empower pastoral communities in woredas in east and southern Ethiopia to better manage local development, improve infrastructure, increase and diversify incomes, increase access to public services, and reduce the risk from drought and other natural disasters, through community level investments. Communities identify, design and implement micro-projects in multiple sectors, thereby accommodating the diverse range of livelihoods, which is paid for through community funds. The risk management component which aims to build an early warning system includes a drought contingency planning sub-component. Local labor is employed to carry out activities, thereby injecting cash into the local economy. (*Latest DO rating: Satisfactory; IP rating: Satisfactory*)

190. **The Nile Transboundary Environmental Action Project (NTEAP)** (GEF US\$ 8 million, Date of approval: April 8, 2003; Effectiveness: October 17, 2003; Closure: September 30, 2008), is an attempt by the ten surrounding nations, including Ethiopia, which comprise the Nile Basin Initiative to encourage more effective stakeholder cooperation on transboundary environmental issues by supporting several prioritized activities in areas that share the Nile to exploit the river as a catalyst for growth, cooperation and integration. The vision is to achieve sustainable socio-economic development through the equitable utilization and benefit of common Nile Basin water resources. This will employ both large scale multi-country investments such as institutional strengthening and providing power and irrigation in Ethiopia as well as smaller-scale projects such as watershed management. The project takes a 2-phase approach over five years, during which time the PSNP plans to harmonize its public works sub-projects with the NTEAP where it is operating in PSNP areas. Most relevant to the PSNP are the activities at community level for land, forest and water conservation. The PSNP will also explore options to harmonize its risk management activities with the project's Flood Preparedness and Early Warning strategies. (*Latest DO rating: Moderately satisfactory; IP rating: Moderately satisfactory*)

191. **The Rural Capacity Building Project (RCB)** (US\$ 54 million credit. Date of approval: June 22, 2006; Effectiveness: Not yet effective; Closure: October 31, 2011) strengthens agricultural services and systems for improved agricultural productivity of producers so that they aware of and can adopt economically viable and environmental sustainable technologies and practices which are adapted to a demand and market-driven agricultural sector. Other components relevant to the PSNP include improving information and communication systems within MOARD and developing agricultural market institutions.

192. **The proposed Ethiopia Sustainable Land Management (SLM)** (Pipeline for FY08. Proposed date of approval: December 11, 2007). This 5-year program is due to commence in December 2007 and aims to strengthen land tenure security, improve agricultural productivity through integrated watershed management and protect and restore ecosystems in agricultural landscapes, across 9 regions of the country. It will emphasize community planning, land monitoring mechanisms, experience-sharing and best practice, and strengthen the institutional environment and land tenure security. This project presents an opportunity for the PSNP to forge strong links with the SLM agenda, critical for the success of the environmental transformation goals of the PSNP

193. The matrix below summarizes the areas of focus for each of the above projects.

Focus Areas of the PSNP and Related Projects

World Bank Project		PSNP	PSCAP	PBS	EDRP	FS Project	PCDP	RCB	SLM	NBI
Governance		✓	✓	✓			✓	✓		
Environment		✓					✓	✓	✓	✓
Rural Development						✓	✓	✓		✓
Federal &/or Regional Capacity Building		✓	✓	✓	✓	✓	✓	✓	✓	✓
Community Asset Building		✓			✓		✓		✓	
Household Asset Building					✓	✓				
Pastoral areas		✓	✓	✓		✓	✓	✓		
Disaster Risk Planning		✓					✓			
Coverage	Region Woreda	7 234	National	National	6 25	4 74	4 < 30	National	6 ≈ 10	10 regional countries

Annex 4: Results Framework and Monitoring

ETHIOPIA: Productive Safety Net APL II

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
LONG TERM PROGRAM	DEVELOPMENT OBJECTIVE	FOR THE PRODUCTIVE
SAFETY NET PROGRAM (2005-2014)	(2005-2014)	
Improved food security for at least 7.2 million chronically food insecure people	% change in household assets.(physical and human capital) and associated incomes	Yr.10: Indicate to what degree the PSNP, as part of the broader FSP, is leading to reduced food insecurity for program beneficiaries, and is leading to a halt in the trend of increasing numbers of food insecure people.
PROJECT DEVELOPMENT	OBJECTIVES FOR SECOND PHASE, APL II (2007-2010)	
Continue improving the efficiency, effectiveness and fairness of the program in terms of ensuring (i) the timely, well-targeted transfers; (ii) quality and environmental impact of public works; (iii) complementarity between safety net program and other food security interventions; (iv) local accountability dimensions of the program; and (v) Ethiopia's ability to respond to droughts.	<ol style="list-style-type: none"> 1. the average number of months that PSNP households report being food insecure 2. % of beneficiary households that receive PSNP resources reporting no distress sales of assets to meet food needs 3. % of public works assessed to be satisfactory (using PW Review performance criteria - eligibility, appropriateness, effectiveness, quality and sustainability) 4. % of PSNP kebeles with established and operational kebele appeals committees 5. % of households reporting direct benefit from community assets 6. % of OFSP beneficiaries who also receive the PSNP 	Y3-Y5 Indicates to what degree the new system is effectively and efficiently functioning as a sustainable and predictable productive safety net, and improvements in the quality of program implementation

Component 1: Safety Net Grants

Intermediate Outcomes	A. Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Outcome 1: Timely delivery of public works and direct support transfers to target beneficiaries.</p> <p>Outcome 2: Productive assets are created and managed in a sustainable manner.</p>	<p>1. % of program woredas completing 80% of cash transfer distributions by end July.</p> <p>2. % of program woredas using 80% of capital and management/administrative budgets by end July</p> <p>3. % of public works for which an ongoing management and maintenance mechanism has been established.</p> <p>4. % of program kebeles that have prepared and drawn on integrated community watershed management plans for public works activities</p> <p>5. Program kebeles have information available and publicly displayed on program objectives, targeting criteria, appeals/grievance procedures</p> <p>6. Pastoral program piloted and assessed.</p> <p>B. Output Indicators</p> <p>1. No. of individuals that have received PSNP support, broken down by PW and DS support, and by female and male headed households.</p> <p>2. % of PSNP woredas completing 75% of public works and direct support payment transfers by end July of each program cycle.</p> <p>3. No. and type of (i) public works and (ii) other community activities, completed and in use.</p> <p>4. No of woredas that have posted budgets in public places.</p>	<p>Y3-Y5: Indicates to which extent the PSNP (i) assures consumption and protects household assets of chronically food insecure households, (ii) provides public works during the appropriate season and makes transfers in a timely manner; and (iii) helps create productive and sustainable community assets.</p> <p>To assess:</p> <p>(i) quality and sustainability of public works</p> <p>(ii) effectiveness and transparency of appeals process</p> <p>(iii) appropriateness and responsiveness of pilot interventions in pastoral areas.</p>

Component 2: Drought Risk Financing		
A. Intermediate Outcomes	A. Intermediate Outcome Indicators	A. Use of Intermediate Outcome Monitoring
Outcome 1: PSNP Woredas have the ability to provide timely cash resources to chronically food insecure households in response to drought.	Outcome indicators can only be provided in severe weather conditions, which are not known.	Yr 3-5. Indicates extent to which food insecure woredas can scale up of activities under Component 1 to support households and protect their livelihoods in the event of a drought.
	B. Output Indicator	
	1. Number of non-PSNP kebeles within PSNP woredas that have drawn up contingency public works plans	
Component 3: Institutional Support		
A. Intermediate Outcomes	A. Intermediate Outcome Indicators	A. Use of Intermediate Outcome Monitoring
Outcome 1: Institutional capacity for the delivery of productive safety net transfers strengthened at all levels Outcome 2: Timely monitoring of implementation progress and results.	1. % of program woredas that are reporting to the Information Center fully and in a timely manner. 2. % of federal and regional RRTs, and zonal RRTs (where established) that undertake regular visits to PSNP sites per year 3. % of funds spent over the project's three-year implementation period (e.g. administration/management budget, and capacity building budget)	To evaluate whether program procedures, implementation, coordination, monitoring and reporting are effective and efficient. Improvements in (i) quality of public works; (ii) program staff Strengthened linkages between PSNP and OFSP
	B. Output Indicators	
	1. No. and type of capacity building/training activities delivered at all levels 2. No. of recommendations from 3-pronged roving audit (e.g. financial, procurement, appeals) received and implemented. 3. No. of progress reports completed on time, at woreda and regional levels. No and type of assessments, evaluations, reviews, studies, and/or completed as planned.	

Arrangements for Results Monitoring

Outcome Indicators	Baseline	Target Values for Phase 2			Frequency	Data Collection and Reporting	
		Yr 3	Yr 4	Yr 5		Data Collection Instruments	Responsibility for data collection
PROGRAM							
% change in household assets (physical and human capital) and associated incomes					Yr 4/5, Resurvey; Yr 9: Final Resurvey	Panel Survey	CSA/FSCB
APL 2							
1 the average number of months that PSNP households report being food insecure (<i>target represents a reduction by 4 standard deviations</i>)	PW –3 64 DS -3 82			PW-3 24 DS- 3 42	Annual	Quantitative Survey	FSCB
2 % of beneficiary households that receive PSNP resources reporting no distress sales of assets to meet food needs	PW – 49% DS – 54%	PW – 55% DS – 55%	PW – 60% DS – 60%	PW – 65% DS – 65%	Quarterly, Annual	Quantitative Survey; Progress Monitoring, Assessments	FSCB
3 % of public works assessed to be satisfactory (using PW Review performance criteria - eligibility, appropriateness, effectiveness, quality and sustainability)	56%	65%	75%	85%	Quarterly, Semi-Annual	Progress Monitoring; Public Works Review, Procurement Audit	FSCB; Department of Natural Resources, MoARD
4 % of PSNP kebeles with established and operational kebele appeals committees	Not applicable	30%	45%	60%	Monthly, Quarterly, Annual	Progress Monitoring, Beneficiary Assessment, Roving Appeals Audit	FSCB
5 % of households reporting direct benefit from community assets	PW - 71% DS – 48%	PW - 75% DS – 55%	PW - 80% DS – 60%	PW - 85% DS – 65%	Quarterly, Annual	Progress Monitoring, Beneficiary Assessment	FSCB

Arrangements for Results Monitoring

Outcome Indicators	Baseline	Target Values for Phase 2			Frequency	Data Collection and Reporting	
		Yr 3	Yr 4	Yr 5		Data Collection Instruments	Responsibility for data collection
6 % of OFSP beneficiaries who also receive the PSNP	PW – 67% DS – 4%	PW – 70%; DS – 10%	PW – 75; DS – 15%	PW – 80%; DS – 20%	Quarterly, Annual	Progress Monitoring, Financial Reports, Assessments	FSCB
Intermediate Outcome Indicators for each Component							
Component 1: Safety Net Grants							
1 % of program woredas completing 80% of cash transfer distributions by end July	39%	50%	65%	75%	Quarterly, Annual	Progress Monitoring, Information Center Reports, Financial Reports	FSCB, Information Center
2 % of program woredas using 80% of capital and management/administrative budgets by end July	64%	70%	75%	80%	Quarterly, Annual	Progress Monitoring, Financial Reports	FSCB, Department of Natural Resources, MoARD
3 % of public works for which an ongoing management and maintenance mechanism has been established	0	25%	35%	50%	Quarterly, Semi-Annual	Progress Monitoring, Public Works Review	FSCB, Department of Natural Resources, MoARD
4 % of program kebeles that have prepared and drawn on integrated community watershed management plans for public works activities	Not applicable	35%	50%	65%	Quarterly, Semi-Annual	Progress Monitoring, Public Works Review, Assessments	FSCB/Department of Natural Resources, MoARD
5 Program kebeles have information available and publicly displayed on program objectives, targeting criteria, appeals/grievance procedures	Not applicable	50%	70%	85%	Quarterly, Semi-Annual	Progress Monitoring, Assessments	FSCB

Arrangements for Results Monitoring

Intermediate Outcome Indicators for each Component	Baseline	Target Values for Phase 2			Frequency	Data Collection and Reporting	
		Yr 3	Yr 4	Yr 5		Data Collection Instruments	Responsibility for data collection
6 Pastoral program piloted and assessed	Not applicable	Not applicable	Not applicable	Not applicable	Quarterly, Annual	Progress Monitoring, Pilot Assessments	FSCB
Component 2: Drought Risk Financing <i>note outcome indicators can only be provided in event of drought, which is not known</i>							
Component 3: Institutional Support							
1 % of program wordas that are reporting to the Information Center fully and in a timely manner (annual average)	86%	90%	90%	90%	Bi-weekly, Annual	Progress Monitoring, Financial Reports,	FSCB, Information Center
2 % of federal and regional RRTs, and zonal RRTs (where established) that undertake regular visits to PSNP sites per year	FRRT – 4 visits RRTs – 4 visits	FRRTs – 4 visits RRTs – 8 visits	FRRTs – 4 visits RRTs – 8 visits	FRRTs – 4 visits RRTs – 8 visits	Quarterly, Annual, Field Observations	Progress Monitoring, RRT Reports	FSCB, DPPA
3 Cumulative % of institutional support funds spent over the project's three-year implementation period (e.g. administration/management budget, and capacity building budget)	Not applicable	40%	60%	80%	Quarterly, Annual	Progress Monitoring, Financial Reports	FSCB

Note: PW = PSNP Public Works Beneficiary households
DS = PSNP Direct Support beneficiary households
FRRTs – Federal Rapid Response Teams
RRTs – Regional Rapid Response Teams

Monitoring and Evaluation System

194. A common and integrated M&E system for the Food Security Program (FSP) of which the Productive Safety Net Program (PSNP) is a part, has been developed FSCB's M&E Task Force. It is envisaged that this M&E system will be used for all three components of FSP (e.g. resettlement program, Productive Safety Net Program, and other food security program). The following sections describe FSP's M&E system in general, and those elements that relate to PSNP in particular. (See FSCB's Monitoring and Evaluation Plan for more detailed information on FSP's M&E System).

195. **Objectives and Approach.** The overall objectives of the M&E System are to:

- assess and document progress towards inputs, outputs, outcomes and impact as proposed in the logical framework and annual work plans;
- systematize data collection, synthesis, analysis and reporting procedures allowing for the prompt dissemination of reliable information to concerned stakeholders; and
- determine effectiveness and efficiency of interventions and learn from experiences so that corrective measures can be taken promptly, and to inform future interventions to improve food security

196. **Institutional Roles and Information Flow.** The M&E System entails monitoring at various levels. M&E activities at the community, kebele and woreda-levels focus on monitoring inputs, activities and outputs. Regional and federal staff are involved in leading assessments of progress towards higher objectives; woredas actively participate in the assessments. Common features of the M&E structures and monitoring and evaluation roles and responsibilities for the Program as a whole are summarized below

(i) Monitoring Roles and Responsibilities

197 *Community Level:* Food Security Task Forces (FSTF) established at community level have important roles in identifying beneficiaries, undertaking a needs assessment, overseeing implementation, and monitoring data for Development Agent's (DA) weekly tracking and monthly reporting for safety net and other food security activities.

198. *Kebele Level:* With assistance from Development Agent (DA), the kebele FSTF provides oversight for the activities implemented in their kebele. Kebele FSTF mobilizes the community to identify and prioritize their needs, participates in the monitoring and evaluation of safety net activities including the Rapid Response Mechanism. These task forces at kebele level also ensure that an updated listing of appeals cases, appeals resolutions, and outstanding appeals resolutions forwarded by the Kebele Council to the Woreda Council is posted in public locations and read out to community members at the 6-monthly community meetings. The DA follows up on progress, compiles and reviews the implementation against the schedule and submits monthly reports to the woreda rural development office, food security desk.

199 *Woreda Level:* The woreda food security desk regularly monitors safety net and other food security activities performed in the respective kebeles, receives monthly progress reports from kebeles (DAs), and compiles the data and review the implementation against schedules. Monthly, quarterly and annual reports are submitted to the regional food security coordination office.

200. *Regional Level:* The regional Food Security Coordination Office (FSCO) collects quarterly progress reports from all woredas, including resettlement, safety net and other food security activities. These data are compiled, progress is reviewed against schedules and appropriate actions are taken. Quarterly and annual synthesis reports are submitted to the federal FSCB. The regional food security steering committee meets periodically to discuss progress made, identify problems and where necessary, advise the Regional Rural Development Bureau (RRDB) to take corrective measures. Under APL II, regional Public Works Focal Units will support the monitoring and evaluation of public works activities.

201. *Federal Level.* The federal FSCB collects quarterly reports from the regional food security offices, review the implementation against schedules, and take appropriate action. The information will then be compiled into program-wide synthesized reports for submission to the federal MOARD and donors. The federal FSSC meets periodically to discuss progress made, identify problems and corrective measures. The MOARD advises the federal FSCB on any suggested policy or strategy changes to be made. The Federal Public Works Coordination Unit will support FSP's M&E system in regards to the implementation of public works as well as the Public Works Reviews to be carried out each year.

(ii) Evaluation Roles and Responsibilities

202. *Kebele and Woreda Levels.* The performance of each component of the FSP will be evaluated locally at the end of each budget year. Communities along with kebele and, at times, woreda officials and technical personnel will conduct these evaluations with minimal assistance from regional and federal line institutions. The focus of these evaluations will be on program outcomes and impacts, including issues of participation and equity. Lessons drawn from the yearly evaluation will be incorporated into the next year's work plans.

203. *Regional and Federal-Levels.* Federal and regional FSCOs have responsibility for designing and managing periodic program reviews/evaluations focused on outcomes and impact. Donor agencies and others may participate at various stages in the evaluation process. The federal FSCB and regional FSCOs will be expected to make necessary revisions in implementation strategies, based on evaluation results and suggestions forthcoming from the FSSC. Periodic evaluations will be carried out on a two-year interval, overseen by the regional and federal task forces. Technical assistance for these periodic evaluations may be provided by donors, NGOs, academicians, researchers, and civic society. With support from the Public Works Coordination Unit to be established in the Natural Resources Department of MOARD, annual Public Work Reviews will be carried out to evaluate performance of public work activities.

(iii) Information Flow and Reporting

204. Information is expected to flow both "upwards" and "downwards". As each office fulfills its reporting requirements up the chain, it will be expected to also report back to the data sources. For instance, each woreda will receive feedback from its regional office on the region-wide results of each monitoring cycle. Each kebele will receive, in a timely manner, information on woreda-wide progress. A mechanism is expected whereby information is shared with communities (in contextually appropriate ways) about the results of monitoring and evaluation exercises.

205. **Monitoring Guidelines and Methods.** The following objectives guide monitoring activities.

- To document accomplishments of the FSP (aggregated at the community, woreda, regional and federal levels) and to keep stakeholders apprised of expenditures and output achievement. (*output monitoring*).
- To verify the proper implementation of processes described in PIMs and other program documents. (*process monitoring*).
- To identify areas in which performance does not match expectations, allowing program managers an opportunity to take corrective actions.

206. Output monitoring is carried out to measure program activities in quantitative terms, quantities of outputs provided, resources used, and numbers of beneficiaries supported. Process monitoring focuses on project activities in qualitative terms, how program activities conform to established norms and guidelines, and the degree to which program targeting of beneficiaries has been successfully achieved. Process monitoring includes assessments of infrastructures to ensure that they conform to technical specifications, and institutional assessments of implementing organizations (GO and NGO) with respect to how effectively they carry out their responsibilities in delivering outputs and services to beneficiaries. Examples of topics used for PSNP process monitoring are provided in Table 4.1.

Table A4.1. Topics for Process Monitoring: Productive Safety Net Program

Topic	Indicator	Data Source
Appropriate selection of beneficiaries	% beneficiary HH meeting program criteria	HH surveys
Appropriate procedures for establishing kebele development plans	Summarized findings from key informant, focus group interviews, HH surveys	Key informant/focus group interviews with community members
Workers paid in timely manner	Avg. number weeks delay in receipt of payment	HH surveys
Infrastructures meet required specifications	% Infrastructures meeting criteria	Survey inspections by engineers (regional offices)

Source: FSP Monitoring and Evaluation Plan, FSCB M&E Task Force

207 Output monitoring plan comprises the following three elements:

1. For PSNP, preparation of an annual plan, broken down in four quarters. These serve as the basis of comparison for activity achievement reporting.
2. Regular periodic reporting (quarterly reports at regional and federal levels; monthly reports at woreda and kebele levels) of achievement of outputs, expenditures on inputs by activity in comparison to plans.
3. A final annual report summarizes the outputs and expenditures on inputs in comparison with the plan.

208. Reporting follows the Government of Ethiopia's fiscal year, which begins on July 8 and ends on July 7. Annual plans for the PSNP are completed by June 30, and will be used as the basis for preparing quarterly achievement reports of the following fiscal year.

209 All monitoring reports should include the following information:

1. Physical measures of outputs provided by project activity

2. Monetary measures of expenditures on inputs by project activity
3. Number of beneficiaries reached by project outputs, broken down into category of household and/or individual. Households will be categorized into male-headed and female-headed, and individuals will be broken down by gender.
4. Problems encountered and corrective measures taken.

210. Additional information is also provided for each of the program components. For PSNP, these include:

211. **Monitoring of Safety Nets.** The CFSTFs are responsible for identifying households within their communities that are eligible to participate in public works projects, receive direct assistance, and/or participate in other food security programs. A monitoring form kept with the CFSTF is used to track household participation in public works and direct support by month, for all households that have been selected as eligible for support under the PSNP. A transmittal form is used to provide the monthly information on the number of households participating in public works and direct support to the DAs at the kebele level.

212. Annual plans for safety nets are developed with inputs and participation from community members. Kebele development plans are prepared on the basis of lists of community needs prepared by the CFSTF. Kebele development plan description forms, filled out by DAs, form the basis for developing woreda and regional plans. The planning process starts at the community/kebele level early enough in the year so that woredas and then regional food security offices will have the information in time to prepare a regional plan before the beginning of the fiscal year (July 8). The kebele, woreda, and regional plans all include projections of outputs, necessary inputs, and the number of beneficiaries to be supported. Critical points at which activity monitoring are cross-checked with the financial accounting system records to ensure consistency and accuracy in the reporting systems are identified by dotted lines.

213. **Semi-annual Safety Net Eligibility Updates.** Annually, DA and community FSTF updates each community's asset/income information on food insecure households.

214. **Evaluation.** Objectives of the FSP evaluation include:

- Determining the number of chronically food insecure households (those that are eligible for the PSNP), and the number of vulnerable households (that are eligible for support from OFSP), and the number of households that are not vulnerable (those that have graduated out of the FSP), with results disaggregated by gender of household head and other vulnerability criteria.
- Learning lessons and reaching definitive conclusions about successful and failed strategies, with the intention of shaping future food security programming and policies.

215. **Annual Roving Audits.** The annual (financial) roving audit function implemented during the first phase will be enhanced to include two additional components: (i) an Annual Roving Procurement Audit, to undertake an assessment of procurement practices at woreda level; and (ii) an Annual Roving Appeals Audit, to undertake an assessment of the effectiveness of the appeals process at kebele and woreda levels and to disseminate best practices. The first annual roving procurement and appeals audits will be completed during 2007.

Annex 5: Detailed Project Description

ETHIOPIA: Productive Safety Net APL II

Project Component 1: Safety Net Activities

216. **Criteria for Selection of Program Woredas:** The PSNP is targeted at those woredas considered chronically food insecure. For the purposes of the program these are defined as (i) being in one of 8 program regions (Tigray, Amhara, Oromiya, SNNPR, Afar, Somali, rural Harari and Dire Dawa)⁷, and (ii) being a recipient of food aid in each of the three years preceding the start of the program. According to the Government's list of woredas, 262⁸ woredas (including Somali Region) satisfied the two conditions stated above. The list of woredas is provided in the PIM. It should be noted that the PSNP is being implemented in rural areas only, and that it does not include Somali Region for the time being. Woredas receiving settlers as part of the resettlement component of the Government's FSP will not be eligible to participate in the program.

217 **Criteria for Selection of Households.** There are two types of criteria:

218. *General criteria for selection of households:* Chronically food insecure households who have faced continuous food shortages (usually three months of food gap or more) in the last three years and who have received food assistance. Additionally, this includes households who suddenly become more food insecure as a result of a severe loss of assets and are unable to support themselves (last one to two years); and

219 *Specific criteria for selection of households:* The following criteria can be considered in the selection of eligible household:

- (i) Households should be members of the community;
- (ii) Status of household assets: land holding, quality of land, food stock, etc;
- (iii) Status of expected household food production compared with household monthly consumption requirements;
- (iv) Income from non-agricultural activities and alternative employment; and
- (v) Support/remittances from relatives or community;

220. In the first year of the PSNP communities in identified woredas undertook a targeting exercise that provided a baseline list of chronically food-insecure households. Based on lessons learned during the first year's targeting exercise this was updated significantly as part of the 2006 annual re-targeting. Afar was also included in the program in 2006.

221. **Annual Retargeting Exercise:** Each CFSTF updates the list of eligible households once a year, at the beginning of the program cycle in September/October. The community will update this list to (i) correct errors of inclusion and exclusion, and (ii) add households to the list if they have become chronically food insecure having suffered shocks (a household that loses a bread winner, for example).

⁷ Whilst the pastoral regions of Afar and Somali are considered eligible for the program, for logistical reasons these two regions were not included in 2005; Afar was added to the program in 2006, and Somali will be added to the program in 2007

⁸ The Bank project will support certain woredas within the Government's Program.

222. **Appeals Process:** The PSNP appeals system is being updated based on agreed recommendations from the 2005/2006 targeting review. Recommendations incorporated include: widespread dissemination of PSNP targeting rules and appeals procedures in local languages and visually (also see below); separation of membership of the targeting structure and the appeals structure; and establishment of new guidelines for documentation and follow-up for appeals at the kebele, woreda and regional levels. Further, the roving audit function will now include a regular review of the effectiveness of the appeals process.

223. **Targeting of Households for PSNP Public Works or Direct Support:** An administrative and community targeting system is applied in the selection of eligible participants for the PSNP. The roles and responsibilities of each body involved in targeting are outlined in the PIM. The identification of eligible households is the responsibility of each CFSTF. Once a household has been selected to participate in the PSNP, the CFSTF determines whether it participates in the public works or direct support⁹

224. *Eligibility for public works:* Public work is intended for able-bodied adult men and women. This includes pregnant women during her first six months of pregnancy, lactating women after 10 months of giving birth, and female heads of households. It excludes sick or mentally challenged people unable to undertake even light work; pregnant women in their final trimester of pregnancy; and lactating women in the first ten months after child birth.

225. *Eligibility for direct support:* Those without labor to participate in public works; those who do not have sufficient and reliable support from sons/daughters, or remittances from relatives away from the village. Such individuals include some disabled persons, lactating mothers (in the first ten months after birth), pregnant women and orphaned teenagers.

226. **Public Works Activities:** Public works are labor intensive community-based activities which are designed to (i) provide employment for chronically food insecure people who have labor and (ii) create productive sustainable community assets. Resources for this component will include grants as wages for labor provided in public works projects as well as capital inputs and administrative/management costs.

227. The selection of sub-projects to be undertaken under the public works component will be driven by the local planning process in order to identify community needs and prioritize sub-projects. The methodology used for this will be the integrated watershed management approach. The planning process is crucial to the success of the public works sub-projects, allowing a pipeline of public works sub-projects to be developed. This will permit the appropriate planning of public works according to seasonal restrictions, and the rapid scalability of the public works should needs within a woreda increase due to shocks.

228. Planning starts by identifying the key outcomes the community wishes to achieve and then developing an appropriate list of sub-projects that will achieve these outcomes. Although the principal level of decision-making for determining appropriate sub-projects will be the community, sub-projects determined to be priority by the woreda level should also be included in the pipeline of planned public works sub-projects.

⁹ For 2007 in the pastoral regions of Afar and Somali all beneficiaries will receive Direct Support. Once appropriate safety net activities have been piloted and approved (planned for 2007) it will be the role of the CFSTF, as in another regions, to determine whether beneficiaries should participate in these activities or receive direct support.

229 Examples of desirable outcomes and related projects include:

- (i) Improved land productivity and soil fertility (for example through hillside terracing and area closures,);
- (ii) Increased land availability (for example through gully control)
- (iii) Improved market infrastructure (for example through construction of roads, bridges and market storage facilities);
- (iv) Improved access to drinking and irrigation water (for example through spring development, shallow wells, and water ponds);
- (v) Increased availability of fodder (for example through vegetative fencing and multi-purpose nurseries); and
- (vi) Improved school and health facilities (for example through repairing and constructing classroom and health facilities).

230. The creation of household assets is not the direct objective of the public works sub-projects, and households cannot be paid individually to work on their land. However, given that the integrated watershed management methodology requires a holistic approach to the watershed, work can be undertaken on both household and community land if there are benefits to the community at large. In addition, public works can be undertaken on household land belonging to female-headed households with no labor in order to enhance their productivity directly. In all cases public works sub-projects that take place on household land are permitted if endorsed through the community planning process and by the owner of the land.

231. Certain sub-projects are not eligible under the public works. These include three main types of sub-projects:

- (i) Sub-projects that solely benefit private, for-profit organizations.
- (ii) Sub-projects to undertake regular, minimal maintenance activities and maintenance activities on assets that the community already undertakes as an in-kind contribution to the protection of those assets.
- (iii) Sub-projects for military or defense purposes.

232. **Direct Support Activities:** The direct support activity is a mechanism for providing grants to the neediest members of the community. The sub-projects under the direct support activities are designed to be sensitive to the labor constraints of the individual beneficiaries, including women. Since the activities are targeted at labor poor households, they should be light in labor demand, but be useful at the same time to the individuals and the community. These sub-projects include:

- (i) Community child care centers at public works sites;
- (ii) Community-managed child care centers in villages to (i) free adult able-bodied labor in Households in the community and (ii) free girls of school-going age from domestic chores to enable them to attend school;
- (iii) Participation in child nutrition and growth promotion classes; and
- (iv) Participation in adult literacy/numeracy classes.

233. **Program Contingencies:** Contingency funding for the program is provided at two levels:

234. *The regional contingency* is made up of 20 percent of the base program cost. The BOARD is responsible for managing 15 percent of the contingency fund while the WRDO is

responsible for managing the other 5 percent. The regional program contingency funds are used if during the course of PSNP implementation the following situations occur:

- (i) The list of chronically food insecure households increases above the baseline after correcting for exclusion errors or because some households encounter shocks that make them food insecure for the rest of the year;
- (ii) The need of Program participants increases because of shocks, e.g. a drought increases food gap from, say, six months to eight months;
- (iii) The price of grain in the woreda increases considerably during program implementation, substantially eroding the value of grants to the chronically food insecure households;
- (iv) A localized and modest shock in program woredas affects households that are not chronically food insecure.

235. In these circumstances, the procedures for the use of the contingency funds are outlined in the PIM. At the end of the year, unused contingency funds will be rolled over as part of the contingency funding for the following year.

Project Component 2: Drought Risk Financing

236. *The federal contingency* provides financing if, because of a significant crop failure or other covariate shock, many more households become food insecure, or there is a significant increase in the number of months of need for existing beneficiaries that cannot be accommodated within the regional program contingency. Under these circumstances additional contingency resources may be available from a **contingent grant** under Component 2, which will provide financing for scaling-up activities under project Component I in these circumstances. Financing is released based on pre-defined indicators for triggering and scaling emergency response. Mechanisms for triggering response, targeting resources, and planning related activities are detailed below. It is planned that this component will be part of an integrated risk management framework being developed for Ethiopia. As part of this, Government has indicated its intention to use resources from the Food Security Program budget to respond to drought should this be necessary.

237. **Determining Payments From the PSNP Contingent Grant:** Disbursement of part or all of the contingent grant is expected to eventually be based on the value of regional livelihood protection cost indices. Such an index must (i) provide a good proxy estimate of the costs of protecting transient food insecure peoples' livelihoods at the time of shock; (ii) be an independent, objective, verifiable and replicable index of livelihood losses in the country; and (iii) convey information in near real-time to ensure that to the extent possible the response to livelihood crises will be more timely and effective. While it is envisaged that such an index may be the principal instrument to be used for triggering financing for this component at some point in the future, it is agreed that alternative methodologies may also be used if they allow a timely, objective and transparent response. Government and development partners have also agreed that the index will need to be further developed, back-tested, and finalized through a broadly consultative process with participation by all stakeholders; and that ultimately the index will be housed within a Government institution, such as the National Meteorological Agency (NMA) and the DPPA Early Warning System.

238. In the meantime the technical work to develop the index is underway. The index proposed for Component II is an upgraded version of the Ethiopia Drought Index (EDI) developed and piloted in Ethiopia in 2005 to trigger insurance payouts in the event of

contractually specified shortfalls in precipitation¹⁰ The EDI was based on rainfall data taken from 26 of the best weather stations distributed throughout the agricultural areas of Ethiopia. The EDI was designed to proxy total drought-related agricultural livelihood losses (in US\$) experienced by the “at-risk” population living in areas that could be associated with these 26 weather stations¹¹ in severe and catastrophic drought years. The historical EDI shows an 80 percent correlation with the total number of historical food aid beneficiaries from 1994 to 2004, but more critically it picks up the well documented catastrophic drought events that have occurred in the past 50 years, specifically 1965, 1984 and 2002. For the APL II period, the EDI for agricultural areas will be improved with localized agro-meteorological coefficients, more weather stations, and satellite-based rainfall estimates which will allow regional index triggers to be established.

239 **Roles and Responsibilities During a Drought Situation:** Table A5.1 below lays out the roles of the DPPA and FSCB at different levels of Government with respect to the PSNP and in response to drought both within and outside program woredas.

Table A5.1: Roles and Responsibilities

	Existing Program Beneficiaries	Additional Beneficiaries due to Emergency within PSNP woredas	Additional Beneficiaries due to Emergency outside of PSNP woredas
Primary Federal responsibility	FSCB	FSCB/DPPA	DPPA
Mobilization and Provision of Resources	Safety Net Food/Grants	Regional and/or Federal contingency and/or appeal	Other Food/Grants and/or appeal
Provision of capital & Admin. costs	Program Resources	Regional and/or Federal contingency, GOE or unnecessary	GOE, other contingencies, or unnecessary
Responsibility for Distribution of Grants or Food	Woreda cashier/food storekeeper using Program resources	Woreda cashier/food storekeeper using regional/federal contingency resources	Woreda cashier/food storekeeper using other additional resources
Management and Organizing Activities	WRDO/FSO	WRDO/FSO	WRDO

240. **Targeting Additional Resources:** Targeting of woredas and beneficiaries for response to drought occurs in three steps:

- (i) The annual PSNP beneficiary targeting process identifies beneficiaries within PSNP woredas who participate in multi-annual PSNP (Component I).
- (ii) The DPPA annual multi-agency pre-harvest needs assessments will determine the woredas and numbers of beneficiaries that require support in addition to existing PSNP

¹⁰ See “Development Pilot Project: Ethiopia Drought Insurance”, World Food Program, 2005, for an extensive discussion of the design of the pilot and the construction of the index.

¹¹ A spatial analysis was performed by WFP’s VAM Unit using the rainfall data and satellite based NDVI data to associate surrounding woredas with each station, i.e. to define “micro-climates” for each of the 26 locations.

coverage. Drought risk financing resources will cover beneficiaries additional to existing PSNP beneficiaries at a level indicated by the LPCI for each region (Component II). A disbursement point of October 31st each year will be used to ensure timely availability of resources at woreda level. Specific woredas to be covered within each region will be agreed between DPPA and FSCB. Communities within the identified woredas will be mobilized through existing KFSTFs and CFSTFs to identify the affected beneficiaries that will receive assistance, and those that should participate in public works or receive direct support. Additional to current procedures, the Woreda Rural Development Office will make an evaluation of those communities that should receive grants and those communities that should receive in-kind resources. Criteria will be developed to help guide this decision-making process.

- (iii) Consistent with current practices, through the pre-harvest and post-harvest needs assessments DPPA will determine the aggregate level of increased need within each woreda. The DPPA will directly assist those communities and households that have not benefited from PSNP and PSNP drought risk financing resources. Additionally, should a large shock occur outside of the normal assessment cycle, the DPPA will mobilize a specific needs assessment for this purpose.

241. **Contingency Planning Activities:** A distinction will be made between a long term contingency planning process which provides the basis for ex-ante emergency planning, and short-term contingency planning which updates existing contingency plans according to short term signals collected from pre-harvest and mid-year assessments. Long Term Contingency Planning allows early warning information to be translated into rapid response during a crisis.

242. For the purposes of Component II, drought contingency planning means:

- (i) Analyzing the potential and anticipating the nature and scale of crises that could seriously affect people's access to food and thus require a response;
- (ii) Defining the kind of response that could be required and how, in collaboration with partners, GOE would organize such a response;
- (iii) Summarizing crisis and response in various drought severity scenarios.

243. Component II will structure ex-ante risk financing for contingency plans designed to protect livelihoods in the event of significant drought. The timeliness of preparing these plans is thus crucial if they are to be financed through a contingent financing facility. In order to allow scale-up of PSNP related activities at the local-level, it will also be necessary for communities during the participatory planning process to identify shelf projects with a high labour content for implementation in case of the need to scale up program implementation. The existence of these plans will be verified by the FSCB as part of the annual planning process.

Project Component 3: Institutional Support

244. This component will support institutional strengthening activities, including related management costs, during the APL II implementation period. These costs will be covered from different funding sources. Apart from the program budget, there will be additional financing contributions from different donors, e.g. DFID will manage a technical assistance call-down facility, CIDA will pay directly for TA, while CIDA, DFID, and Irish Aid will continue to provide funds through a multi donor trust fund managed by the World Bank.

245. This component focuses on strengthening all aspects of program implementation, concentrating on three key areas:

246. **Program Management Costs and Capacity Building and Training:** This will support the management budgets given to regions that focus on three elements:

- (i) Training at community level, to strengthen beneficiary identification and local level planning.
- (ii) Technical training at the woreda and regional levels to ensure that best practice technical standards are used in public works sub-projects.
- (iii) Capacity building at the woreda and regional levels to ensure smooth program implementation, which will finance training to ensure that staff are conversant in program procedures, particularly relating to the ESMF, financial management, and procurement.

247. **Monitoring and Evaluation Framework:** Support will be provided so that:

- (i) Public works receive adequate technical supervision and monitoring. This will include developing instruments such as the use of GPS/GIS technologies to improve mapping capacities for better planning and monitoring of public works; and financing for the annual federal Public Work Review that showcases best practice implementation and regional experience sharing under the public works component.
- (ii) Problems are identified and remedied as they emerge and that lessons learned are incorporated into program design. This will focus on strengthening the rapid response mechanism and the FSCB information centre, and a follow-up program “process” survey after the third year of program implementation.
- (iii) Program outcomes and impacts are assessed. This will focus on ensuring that the monitoring system that has been rolled out to woredas is functioning smoothly; that the design on computerizing the beneficiary payroll completed as part of Phase I is rolled out to all woredas, and that the impact evaluation, following on from the CSA baseline survey implemented in 2006 is completed.
- (iv) The necessary complementary programs required to support a well articulated concept of graduation are defined and, as necessary, piloted. Several additional studies will be completed as part of the triggers for moving to APL III in this area.
- (v) Indicators to allow improved early warning and triggering of timely resources are further developed. This will focus on enhancing the current Ethiopian Agricultural Drought Index; supporting development of appropriate index-based indicators for the pastoral regions; and consolidating these with other early warning indicators.
- (vi) The annual (financial) roving audit function will be enhanced to include two additional components: (i) an annual Roving Procurement Audit, to undertake an assessment of procurement practices at woreda level; and (ii) an Annual Roving Appeals Audit, to undertake an assessment of the effectiveness of the appeals process.

248. **Transparency and Accountability:** This will finance several initiatives that will ensure widespread understanding of program objectives, procedures, and implementation progress among all key stakeholders. This will include:

- (i) Public posting of information related to program objectives, criteria for targeting, and appeal procedures in all implementing kebeles in the program.
- (ii) Establishment of the PSNP website and publication of annual program information on the website.

- (iii) Fielding of a beneficiary satisfaction survey which will gather information from households on their understanding of and satisfaction with PSNP procedures and services.
- (iv) Establishment of a system of program beneficiary cards to increase transparency about who is in the program and to provide predictability to beneficiaries in this regard.

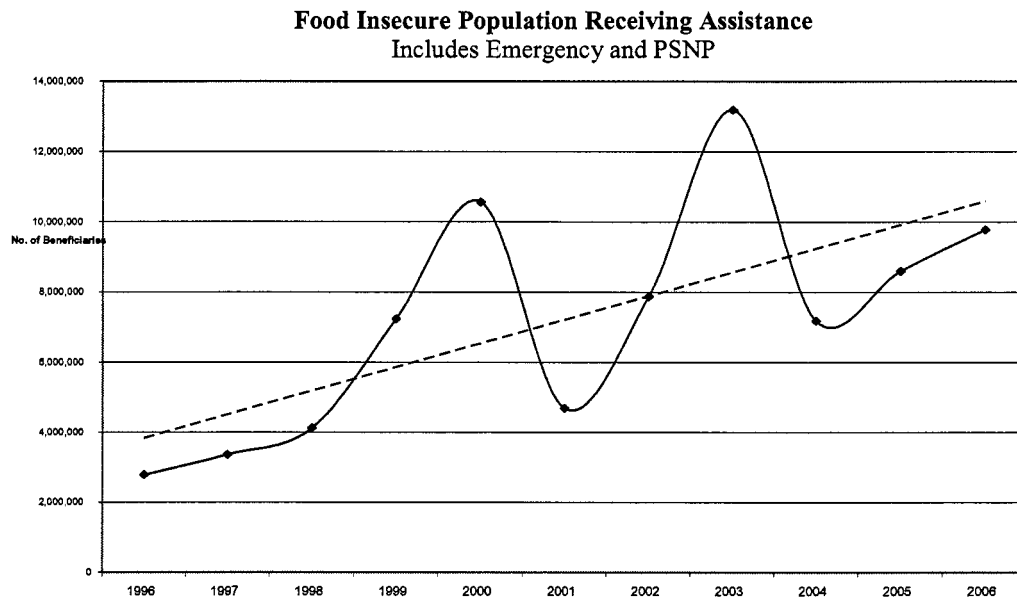
Annex 6: Economic and Financial Analysis

ETHIOPIA: Productive Safety Net APL II

Poverty, Vulnerability and Food Insecurity in Ethiopia

249 The Risk and Vulnerability Assessment (World Bank, 2004) estimated that about 50 % of the population are considered poor, an additional 27 percent move in and out of poverty, and 14 percent who are not poor now have a high probability of falling into poverty in the future with a single large shock. This highlights the fact that acute poverty is a significant problem in Ethiopia. Uninsured risks remain a major constraint to allowing people to escape poverty once and for all. Ethiopians face a number of significant covariate and idiosyncratic risks, harvest failure related to climatic variability being the most significant (Risk and Vulnerability Assessment, 2004).

250. Around eight million people, over 10% of the population, are considered to be chronically food insecure, in the sense that they cannot feed themselves throughout the year from their own incomes, even in years of good rainfall and harvest. Data from Catholic Relief Services indicates that in 2003, based on self-reported measures, chronically food insecure households did not have sufficient food for an average of 5.6 months. This figure varies greatly by region and rises to 10.9 months for Somali region.



251. There is ample evidence that transiently food-insecure households start coping with an impending disaster relatively early, even before harvest failure. In the early stages, coping strategies tend to involve less costly actions such as sale of non-productive assets or migration of family members. In later stages, however, households approaching or at subsistence levels and having exhausted initial coping mechanisms are forced to sell productive assets or employ other costly coping strategies, such as removing children from school. As often cited, short-term shocks have long-term consequences and involve considerable setbacks to development. For example, studies show that households that suffered substantially during the 1984-5 drought, which

resulted in a large-scale famine, continued to experience 2 to 3 percent less annual per capita growth during the 1990's as compared with those who were not hit as hard¹²

252. While the current emergency system supporting the transiently food-insecure is largely sufficient to save lives, it is unfortunately often not sufficient to save livelihoods. In short, repeated shocks followed by traditionally late or inadequate responses have led to loss of livelihood and increasing chronic food insecurity, as can be seen in the rising trend in the number of people requiring assistance in the graph below. Timely and predictable intervention in a crisis can prevent households from having to engage in destructive risk-coping strategies, and would reduce the need for a massive emergency response.

253. These characteristics of the country justify the need for a well-designed Program that aims to reduce the vicious cycle induced by the interplay of weather-shocks, asset depletion and poverty traps.

Economic Benefits of the Program

254. The PSNP has protective and productive benefits. The core elements of protection include reduction of (a) extreme hunger, and (b) asset depletion, malnutrition and poverty traps.

a. Protective Benefits

255. **Extreme Hunger:** By receiving grants (to buy food), or food directly, the households will be able to smooth consumption and reduce hunger during the lean season. Table A6.1 estimates the direct transfer benefits that food insecure households participating in the program will receive. The average transfer benefits from the program are substantial, reaching an equivalent of US\$103 per household per annum. It is estimated that up to 1,438,414 households will receive these transfers each year (based on current program parameters), providing a total of around US\$148 million of transfers a year.

256. The evidence from the 2005 PSNP beneficiary survey is that it is meeting this objective. Three quarters of beneficiary household reported that they consumed more food or better quality food this year as compared with last year (when they would have been receiving emergency assistance). 94% of households attributed this to the PSNP

257 **Asset Depletion, Malnutrition and Poverty Traps:** In Ethiopia, there are several paths to impoverishment and poverty traps. The most direct way is through asset depletion, which often happens as a response to shocks which result in households having unmet consumption needs. This would mean selling an ox, other livestock, farm implements, and other assets as a way to smooth consumption. Evidence of poverty traps is emerging, albeit slowly. Village studies in Ethiopia point to a growing level of destitution over time¹³ in places where frequent drought, population growth and environmental degradation lead to small plots of poor quality, and which do not sustain livelihoods. In the northern highlands of the Amhara region, 20 percent of households which were not destitute in 1992/93 became so 10 years later. Furthermore, the studies noted that the villagers had the widespread feeling that (a) the proportion of the poor had increased, and (b) the current poor were in a more precarious situation than a decade ago. These same studies also show that the likelihood of becoming destitute was higher for female-headed

¹² Dercon and Krishnan, 2000

¹³ IDS/Save the Children-UK

households. Such households who were not destitute in 1992/93 were 2.5 times more likely to become destitute by 2001/2002 than male-headed households.

Table A6.1. Annual Direct Benefits Generated Through the PSNP
(based on 2006 program parameters)

Total number of program beneficiaries ¹	7,192,072
Total number of households ²	1,438,414
Number of households participating in public works ³	1,150,732
Average number of participation days per household per year ⁴	150
Average value of wages earned per household (US\$) ⁵	103
Value of wage transfer through public works (US\$)	119,041,191
Number of households benefiting from direct support	287,683
Value of average annual transfer per household (US\$) ⁶	103
Total value of transfers through direct support	29,760,297
Total value of transfers (US\$)	148,801,489
Total number of days of public works generated per year	172,609,728

1. Number of program beneficiaries is based on extensive community targeting exercise in the 262 program woredas, conducted for the 2006 program estimated. Actual number of beneficiaries will be confirmed each year through an update to this community targeting exercise but is expected to remain within this range for the three years of APL II.

2. Estimated number of households is based on average household size of 5, equivalent size of the bottom rural decile from the Household Income, Consumption & Expenditure Survey, 1999, CSA.

3. It is estimated that 80% of households will participate in public works; 20% in direct support

4. Maximum participation in public works is set at 5 person days for each household member, quota to be met by eligible individuals in the household.

5. Wage rate is set at 6 birr per day.

6. Transfers under direct support are set at 30 Birr per person per month.

258. Shocks, particularly often lead to severe harvest failure and have long-lasting effects. A study of rural households dispersed over several agro-ecological zones and regions found that the damaging effects of shocks, when not addressed adequately, are long lasting. The findings show that households that suffered substantially during the 1984-5 drought, which resulted in a nationwide famine, continued to experience 2 to 3 percent less annual per capita growth during the 1990s than those who were not hit as hard¹⁴ Households at the 75th percentile of consumption loss during the 1984/5 famine experienced on average 16 percentage points less growth during the 1990s than those at the 25 %. Clearly not only are households' livelihoods exposed to drought shocks, they are often unable to cope with it ex post, rendering them very vulnerable.

259 Another source of poverty trap is to delay investment in human capital by reducing consumption, through rationing or "tightening one's belt" While this is an important risk coping mechanism, there are costly long run implications in terms of the future productivity of the individual, household and the nation. It is especially risky when it is extended to children, which

¹⁴ Dercon and Krishnan, 2000

can lead to long-term malnutrition. In Ethiopia, children between 6 and 24 months, who lived in communities where half the crop area was damaged, experienced 0.9 cm less growth, in the six months following the harvest, than children who lived in communities without crop damage¹⁵. The empirical analysis further suggests that food aid significantly offsets the growth damage from the income shock in those communities receiving food-aid. In sum, the increase in household consumption that the program supports is expected to contribute significantly to avoiding increased malnutrition.

260. The PSNP will contribute to the reduction of poverty traps in three ways. One, by ensuring transfers to chronically food insecure households, consumption shortfalls are met, risk of malnutrition is reduced and the long term poverty-inducing consequences of malnutrition are avoided. Two, the consumption-smoothing effect of transfers means that households need not deplete their productive assets. Three, the Program protects and builds the assets of specific target groups within the chronically food insecure population, who are exceptionally vulnerable. Although the main focus of the public works activities is to build productive community assets, there is an explicit provision for the community to assist in enhancing the productivity of lands owned by labor-poor, female-headed households through the public works activities. The 2005 beneficiary survey found that 3 in 5 beneficiaries avoided having to sell assets to buy food in 2005. 90% of households explained that this was a result of participation in the PSNP.

261. It should be noted that the previous emergency system strived to achieve similar protective benefits to those described above. However, the PSNP aims to significantly improve on this previous system by strengthening the beneficiary targeting process and improving the delivery system so that beneficiaries receive timely, predictable, appropriate and adequate resources. The 2005 beneficiary survey found that there is evidence that the PSNP has had positive, significant effects on the well-being of beneficiaries (calculated both through subjective and objective indicators of well-being).

262. In conclusion it should be emphasized that the benefits of the protective part of the program, which essentially aims to ensure reduced mortality and morbidity among program beneficiaries, are hard to quantify. Therefore the quantification of the measurable direct and indirect benefits below will necessarily remain an under-estimate.

b. Productive Benefits

263. The PSNP is expected to deliver significantly more productive public works than the initiative supported under the previous emergency system. The main avenues for this are through the leveraging of the non-transfer component of the program, strengthening of community based planning by applying an integrated watershed management approach, and improved technical supervision and monitoring. The program will generate around 175 million person days of employment a year, which will be complemented with around US\$ 43 million of financing for critical non-transfer costs such as capital inputs and costs to cover training, technical supervision, and monitoring. These inputs provide a platform for substantial investment in productive community assets. A small sample of outputs from all woredas during the first year of public works sub-component is included in the table below.

¹⁵ Yamano, H. Alderman, and L. Christiaensen, "Child Growth, Shocks, and Food Aid in Rural Ethiopia," *American Journal of Agricultural Economics* 87: 273–288, 2005.

Table A6.2. Sample of Public Works Supported in 2005 Under the PSNP

Soil Bund construction (Km.)	10,320	Fruit seedling production (No.)	7,900
Stone bund construction (Km.)	244,673	Nursery site establishment (No.)	48
Pond construction (No.)	759	Seedling planting (No.)	17,228,942
Pond maintenance (No.)	18,958	Rural road construction (Km.)	6,160
Spring development (No.)	310	Rural road maintenance (Km.)	4,887
Spring Maintenance (No.)	1,545	School class room construction (No.)	756
Hand dug well construction (No.)	407	Elementary school maintenance (No.)	80
Area Closure (Ha.)	39,450	Health post construction (No.)	342
Small scale irrigation canal (Km.)	3,467	Farmer training centre construction (No.)	121

264. **Environmental Benefits of the Program:** Conservative estimates of the annual costs of land degradation are between 2 to 3 % of agricultural GDP, which does not include the downstream costs of flooding. The overall effect of land degradation is a combination of losses in soil productivity, reduction in biomass, less vegetative cover of the soil, and less return of organic matter, making the land, and the households supported by it, more susceptible to the effects of drought and flooding.

265. Seemingly rational actions from the point of view of individual households have large negative social consequences. In this case, time-tested household strategies to cut and burn trees either to meet their own energy needs or to earn income as a coping mechanism, along with traditional “tragedy of the commons” outcomes from overgrazing on communal land, have lead to ruinous effects on the environment and the natural resource base for current and future generations. The most important source of cooking fuel is firewood, used by almost 75 percent of households. About one in six households uses mainly dung cakes as a source of cooking fuel. Preliminary estimates suggest that the annual phosphorus and nitrogen loss nationwide due to dung removal is about equivalent to the total amount of commercial fertilizer annually applied.

266. The PSNP will contribute to reducing and reversing environmental degradation through comprehensive integrated watershed management plans that encompass a number of soil and water conservation interventions. These include bunding, terracing, gully control, area closure and reforestation/afforestation initiatives. Appropriately planned and integrated combination of these activities is expected to have the following effects:

- (i) reduction in top soil loss caused by rain and wind erosion on cultivated, grazing and forest land;
- (ii) reduction in the accumulation of eroded soil and soil loss that could be washed away from the watershed to downstream areas;
- (iii) additional areas of land are brought back into cultivation resulting in land use changes (the proportion of land used for cropping, grazing and forest);
- (iv) increase in productivity on treated lands and reduced frequency of crop failure;
- (v) Increased soil moisture infiltration, also leading to increase in groundwater recharge.
- (vi) reduced downstream flooding; and
- (vii) Improved environmental conditions as a result of increased vegetative biomass, biodiversity and carbon sequestration.

267 Calculations on economic rate of return from these types of interventions where entire watersheds have been treated is estimated to be 13.5% and 14.7 % respectively, for 25 and 50

year time frames (MERET, WFP). This indicates an acceptable rate of return for these types of sub-projects that aim at producing immediate benefits as well as having longer term environmental impact. These figures indicate that these types of approaches can be economically viable, even without accounting for the downstream benefits¹⁶

268. **Increased Agricultural Productivity:** The sited benefits are expected to lead to increased agricultural productivity. At present, cereal yields in Ethiopia are only around 1.1 to 1.2 tons per hectare. There is scope for much improvement. In the food insecure areas, fertilizer is applied in only 13 percent of cultivated areas. In the long run, environmental rehabilitation includes controlling soil erosion, better water retention and improved plot quality. This will lead to improved yields. In addition to soil nutrient depletion, soil run-off also poses an important environmental threat. Experiments in Tigray indicated that for stone bunds three to 20 years old, soil loss decreased on average by 68 percent. Cereal yield increases through use of stone bunds were estimated at 50 kg per ha (an increase of about five percent) on average across 150 plots in Dogu'a Tembien (Tigray) in 2002. Other evidence from the highlands in Tigray found the value of production on plots with stone terraces to be 17 percent higher and 41 percent higher when trees were planted. Responses received from farmers themselves in an evaluation of MERET shows that yields were perceived to be considerably higher on treated cultivated land with soil and water conservation measures.

269. Based on an experimental study conducted in central Tigray, Gebremedin et al. (1998) estimated that the internal rate of return to investments in stone terraces averaged about 50%. Pender and Gebremedhin (2004) estimated a lower, but still relatively favorable, rate of return for stone terraces of 34%, based on econometric analysis of their data from the highlands of Tigray. Adoption of stone bunds has also been found to be positively correlated with increased use of fertilizer¹⁷

270. The PSNP, community-based small scale irrigation sub-projects will enable vulnerable households to supplement their traditional production with additional crops of grain or high-value vegetables. Based on MOARD's alternative farm models, the Ethiopia Social Rehabilitation and Development Fund estimated that the most viable small-scale irrigation schemes, which are those where 50 percent of the irrigated land is devoted to vegetables, had a median economic rate of return of 14 percent. In practice, the range of projects chosen will determine the rate of return.

271. Although the general indication is that the returns from soil and water conservation investments can be significant, caution should be exercised in the interpretation of these results. Firstly, the benefits are not immediate and it may take up to four years before a substantial yield increases can be realized (Poverty Assessment 2004). Secondly, many of the returns cited above are from measures undertaken directly on cultivated land. To date the PSNP has focused on interventions on communal lands, although APL II will place an increasing emphasis on adopting an integrated approach to the watershed, which would include adopting measures on cultivated land more systematically. Third, the returns to different measures vary significantly depending on the agro-ecological conditions in any particular watershed. This highlights the importance of tailoring interventions appropriately to the needs of the local area and avoiding a "one size fits all" approach. Finally, it is important to highlight the need to ensure appropriate planning, sequencing and quality of the interventions adopted. Between 1976 and 1985, 600,000 km of soil

¹⁶ "Report on the cost-benefit analysis and impact evaluation of the soil and water conservation and forestry measures" (Draft), MERET, World Food Program, Addis Abba, February 2005.

¹⁷ "Livelihood Strategies and Land Management Practices in the Highlands of Tigray"; John Pender, Berhanu Gebremedhin and Mitiku Haile. 2002.

and stone bunds were constructed on arable land, 500,000 km of hillside terraces were constructed, 500 million tree seedlings were planted and 80,000 ha set aside for natural regeneration. However, by the mid 80's conservation activity had impacted only 1 percent of the highlands only 15-20 percent of seedlings had taken root and much of the physical infrastructure was imposed without much input from stakeholders and in some cases involved coercion. Consequently, these structures were not well maintained¹⁸ The design of the public works sub-component and further development of this under APL II is designed to specifically avoid this and ensure that the assets under the program are productive and sustainable.

272. Increased Investment Behavior: Another benefit of the PSNP is that households that receive transfers on a predictable and timely basis, over time, will be willing to take more risks, adopt higher yielding seeds, and apply more fertilizer. Several studies highlight the positive role that safety nets can play in providing the insurance needed to encourage vulnerable populations to choose higher-risk, higher reward strategies that can facilitate the climb out of chronic poverty. Dercon and Christianensen (2005) find that increasing the level of consumption by one standard deviation when the rains are poor (via for example a safety net or insurance) would increase the number of farmers adopting modern inputs, possibly by around 7%. Furthermore there is clear evidence that the application rates would increase in that case substantially, by 54%. Subbarao (2003) indicates that these significant risk-coping benefits can be as important as the transfer benefit to poor households who lack options or who cannot afford to insure themselves. Improvement in the household's ability to reduce risk leads to higher risk-taking activities, which ultimately lead to higher productivity. Such risk benefits of safety net programs, the benefits of reduced risks due to consumption smoothing, are rarely factored into the calculations of program cost-effectiveness.

273. Reduced Isolation and Improved Market Integration: The PSNP will contribute towards reducing isolation and improve access to public services. Although distances to most services (such as health, education, food markets, and water supply) have declined, remoteness still defines the lives of many Ethiopians. In 1999, rural households lived on average 5.97 kilometers from food markets, 0.85 kilometers from a water point, and 8.3 kilometers from a health post. Distance to food markets, water, health and transport services are all highly significant determinants of poverty¹⁹ and improved access to infrastructure is deemed a critical factor for promoting economic growth. Specific work on Ethiopia finds that access to road infrastructure is a highly significant variable in explaining differing growth experiences across villages (Dercon, 2002). Through the public works activities, communities will build rural feeder roads, construct and repair schools and health clinics, and improve the availability of drinking water. An overview of public workfare programs in various countries has highlighted the potential of public workfare programs in this regard. In particular, the Maharashtra Employment Guarantee Scheme in India has contributed significantly to the growth of irrigation infrastructure and rural roads²⁰. Again, the scale of the program suggests that there could be considerable returns.

274. Enhanced access to services can also come about as a direct result of the value of the transfer provided to households. A household survey of PSNP beneficiaries based on the 2005 program indicates that almost half the beneficiaries surveyed stated that they used healthcare facilities more in 2005/06 than in 2004/05 and 76% of these households credited the PSNP with

¹⁸ "Land degradation in Ethiopia, its extent and impact"; Leonard Berry, May 2003, Processed.

¹⁹ Ethiopia Poverty Assessment, World Bank 2005

²⁰ Subbarao, 2003, and Dev, 1994

this enhanced access. More than one third of households enrolled more of their children in school and 80% of this was attributed to participation in the PSNP²¹

275. **Market Development:** It is expected that the PSNP through the increased use of grants as the medium of transfer will encourage market development. In the short run, it is expected that the increasing use of grants will induce increased demand for cereals and subsequently supply response from the surplus producers. Evaluations that have interviewed local traders have generally reported that given adequate information traders respond quickly to the increase in demand following cash interventions (Harvey 2005). Wilding and Ayalew (2001) find this specifically in the case of Ethiopia, where the importance of providing traders with clear information about volume and period of disbursement of resources was highlighted as important in facilitating the supply response.

276. In the long run, this effect, coupled with increases in agricultural productivity, will lead to higher incomes and generate sizeable multiplier effects, especially if the income elasticity for locally produced non-food non-tradables is large, and local supply is elastic and labor intensive. The 2005 Household survey²² indicates that these cash transfers are used in a much more diverse way than food rations. Almost all beneficiaries used some of their cash to buy staple food (80%) or other food (11%), but cash transfers were also used for many other purposes (see table below).

Table A6.3: Use of PSNP Cash Transfers in 2005

Use of Cash	Percentage of Households	Average Spent (Birr)
Bought Staple Food	80.1	162.2
Bought Groceries	58.5	34.3
Bought clothes	41.0	91.5
Paid for health costs	29.3	62.5
Debt repayments	15.7	84.8
Paid for education costs	15.3	27.6
Paid taxes	14.7	17.5
Bought seed for farming	14.5	64.6
Bought other food	10.9	84.4
Bought livestock	8.2	131.1
Bought fertilizer	4.3	67.5
Social obligations	4.0	19.0

277 Theory suggests that improved accessibility and increased agricultural productivity will over the long-run lead to increased cereal production which leads to lower real prices, effectively increasing consumers' real incomes. There will be important direct gains through decreased food prices for all net cereal buyers which make up 60% of the Ethiopian population. Caution is necessary when attempting to understand the impact of cash transfers on markets however, given the number of dynamic endogenous effects at play within the Ethiopian grain market. While the PSNP has undertaken significant monitoring of market prices, isolating the impact of the cash transfers is a fraught exercise. Limited available evidence using a general equilibrium model suggests that the overall impact of shifting from food-aid to cash transfers in the Ethiopian context has a modest impact on grain prices²³ However, developing a methodology based on

²¹ S.Devereux, R.Sabates-Wheeler, M Terea and H.Taye (2006) Trends in PSNP transfers within targeted households. (Institute of Development Studies, Sussex and Indak International, Addis Ababa).

²² Ibid

²³ Gelan, A.U: "Does food aid have disincentive effects on local production? A general equilibrium perspective on food aid in Ethiopia" , *Food Policy*, 2006

longitudinal survey data to better understand the impact on markets is being incorporated into APL II.

Fiscal and Macroeconomic Considerations

278. The importance of the program as an investment in the creation of community assets is highlighted by the scale of the program. Table A6.4 shows that for an average participating woreda, program financing represents a doubling in resources as compared with the Woreda Block Grant received from the federal government. In some woredas, where the number of chronically food insecure households is high, safety net resources represent almost three times the resources currently received from the federal government (see Figure A6.4 below).

279 Much of this resource, around 80%, GOEs to finance the 172 million days of public works labor. An important part, around 20%, is used to finance capital and administrative costs associated with the construction of public works. This implies significant additional procurement and requires capacity within the woreda to ensure full utilization of the budget.

280. Overall, the analysis highlights (i) the very sizable investment that the PSNP represents in community infrastructure as compared with other investments made through the woreda budget; (ii) the importance of fully integrating these resources into the woreda planning process to ensure that synergies with other woreda resources and investments are fully captured, and (iii) the need to ensure sufficient investments in building capacity in financial management, procurement, logistics, and public works management.

Table A6.4: Ratio of Woreda PSNP Resources to Woreda Block Grant, by Region

	Total PSNP Resources as % of Block Grant			Capital and Administration Budget as % of Block Grant		
	Average	Min	Max	Average	Min	Max
Tigray	92%	14%	189%	18%	3%	38%
Amhara	109%	30%	192%	22%	6%	38%
SNNPR	70%	21%	144%	14%	4%	29%
Oromiya	125%	20%	284%	25%	4%	57%
Average	100%			20%		

Based on 2006 woreda PSNP budget, including transfer and capital and administrative budget, and woreda block grant data for FY 2005/2006 for the four main decentralizing regions. Includes 201 woredas for which data is available (out of 205). Includes cash and in-kind transfers to beneficiaries (in-kind transfers valued at 2Birr per kilo).

281. The resource envelope required for the PSNP is about US\$ 225 million per year²⁴. This is equivalent to approximately 1.73 percent of the GDP of Ethiopia. From the perspective of domestic public investment priorities, it represents over a quarter of the expenditure by all levels of Government on education, but is considerably higher than public expenditure on health (Table A6.5). This is therefore a significant program.

²⁴ This is based on 2006 program parameters. There are various methodologies for costing the value of in-kind resources to the program. Here we take the approach of costing these resources at their value to the beneficiary, around 2 Birr per kilo. This estimate does not include the cost of including Somali in the program for 6 months of support, which would increase the required resource envelope by around US\$ 25 million.

Table A6.5: Public Expenditures (% of GDP): PSNP Compared to Social Sectors

Sector	Public Spending as % of GDP
Education (all levels)	6.08
Health (all levels)	1.19
PSNP	1.73

Note: Health and Education data represent budget allocations for the year 2005/06. PSNP data reflects 2006 program spending. Source: World Bank staff estimates based on MOFED data.

282. Given the size of expenditures on the PSNP, questions arise as to the affordability and sustainability of such a program for a country with Ethiopia's level of income. In this regard it is important to keep in mind that much of the program financing does not represent "new" funds. Ethiopia already received a very large inflow of resources for humanitarian purposes on an annual basis. The PSNP is transforming the use of these resources from pure transfers, which they were in the past, to productive resources. Furthermore, if program objectives are achieved, the program itself should lead to reduced need and scale. In other words, the Program envisages a reduction in scale as the combined investment from the program resources and other food security interventions improve households' food security status. The nature of this support is that it is vital: without such support there is a risk of humanitarian crisis. When estimating the opportunity costs of such an investment the widespread morbidity and mortality that would result from not maintaining this level of resource investment through the PSNP must be recognized.

283. On the issues of the macro-economic impact of the program, a point of difference between past humanitarian assistance and the PSNP is that the majority of resources for the PSNP will be in grants, while the former was mostly in the form of food. Significant volumes of food aid in the past were blamed for negative incentives for agricultural producers. It was believed to have depressed food prices during poor harvests and led to collapses in food prices during bumper harvests. Thus the PSNP, by shifting from food to grants, will mitigate the negative effect of humanitarian assistance on food markets and prices. At the macro-level, research indicates that shifting away from food-aid stimulates domestic production, leading to increased employment in both the agriculture and non-agriculture sectors, while cash transfers maintain the purchasing power of households. These effects reinforce each other leading to multiplier effects and an overall expansionary impact on the domestic economy²⁵

284. At the same time, the PSNP will inject a large amount of resources into the economy and could potentially lead to both localized and generalized price inflation and appreciation of the exchange rate. There is a possibility that the increased effective demand that will result from transfers to poor households will increase food prices, especially during poor harvests. The losers will most likely be poor urban net food buyers. However, net food producers are likely to gain and in a dynamic context, the increased supply response and the possibility of higher imports in response to increased prices could off-set the pressure of increasing prices.

²⁵ Ibid.

Annex 7: Project Costs
ETHIOPIA: Productive Safety Net APL II

Table A7.1. Project Cost by Component and/or Activity

Project Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
Component 1. Safety Net Grants			
A. Sub-component: Public Works	353.27		353.27
B. Sub-component: Direct Support	210.82		210.82
<i>Contingencies for Food and Cash Transfers</i>	139.75		139.75
<i>Capital and Administrative Budgets</i>	131.17	1.50	132.67
Component 2: Drought Risk Financing	25.00	-	25.00
Component 3. Institutional Support	45.29	2.50	47.29
Total Baseline Cost	905.30	4.00	909.30
Physical Contingencies	2.00	1.00	3.00
Price Contingencies	2.00	1.00	3.00
Total Project Costs	909.30	6.00	915.30
Total Financing Required	904.30	6.00	915.30

285. Estimated taxes and duties are \$1.2 million equivalent and the total project cost, net of taxes is \$914.10 million equivalent. Therefore, the share of project cost net of taxes is 99%.

286. Of the total project cost of \$915.30 million, IDA will finance \$175.0 million (19%); Other Donors, \$487.2 million (54%) of which \$64.6 million from WFP and USAID are in-kind (food resources); and the Government of Ethiopia, \$2.0 million equivalent (0.5%). The total financing gap for Component 1 and Component 3 is estimated at \$251.10 or 26.5% of total estimated Program costs. Details are provided in Tables A7.2 through A7.4 below

Table A7.2. Project Total Cost by Component (including contingencies)
(in US\$ million)

Project Component	Total
1. Component: Safety Net Grants	838.50
2. Component: Drought Risk Financing	25.00
3. Component: Institutional Support	51.80
Total Project Cost	915.30

Table A7.3. Ethiopia Productive Safety Net Program, APL II (2007 -2009)
Breakdown of Costs by Sources of Financing (in US\$ millions)

Project Component	Sources of Financing											Total ¹
	GOE	IDA	DFID	EC	CIDA	Irish	USAID ¹	WFP ¹	Subtotal	Carry - Over ²	Financing Gap	
COMPONENT 1: SAFETY NET GRANTS	1.00	145.00	182.80	187.60	13.40	16.00	38.00	26.60	610.40	50.00	(178.10)	838.50
I. Transfers												
A. Public Works Subcomponent	-	80.00	100.86	103.50	7.39	8.83	24.32	21.28	346.18	27.59	18.50	355.27
B. Direct Support Subcomponent	-	20.00	25.21	25.88	1.85	2.21	6.08	5.32	86.54	6.90	(117.38)	210.82
II. Other												
(i) Contingencies (Cash & Food)	-	25.00	31.52	32.34	2.31	2.76	-	-	93.93	8.62	(37.20)	139.75
(ii) Capital Budget	1.00	15.00	18.91	19.41	1.39	1.66	5.70		63.06	5.17	(31.27)	99.50
(iii) Administrative Budget		5.00	6.30	6.47	0.46	0.55	1.90		20.69	1.72	(10.75)	33.16
COMPONENT 3: INSTITUTIONAL SUPPORT	1.00	5.00	11.80	8.00	1.00	2.00	-	-	28.80	6.50	(16.50)	51.80
SUB-TOTAL	2.00	150.00	194.60	195.60	14.40	18.00	38.00	26.60	639.20	56.50	(194.60)	890.30
COMPONENT 2: DROUGHT RISK FINANCING	-	25.00	-	-	-	-	-	-	25.00	-	-	25.00
TOTAL PROGRAM:	2.00	175.00	194.60	195.60	14.40	18.00	38.00	26.60	664.20	56.50	(194.60)	915.30

Notes (i) Contributions from USAID and WFP are in-kind. In-kind contributions to the PSNP have been valued at 2 Birr per kilo. This is a methodology that allows consistency between the financing available and the Government's program budget. It should be recognized however that the actual cost of delivering these resources is significantly higher than this methodology reflects. USAID and WFP currently support a very significant number of program beneficiaries. Further, USAID continues to support over 1 million beneficiaries in Somali region that ultimately will be included in the PSNP once an appropriate program design for this pastoralist region has been completed and piloted. (ii) Carry over of US\$ 56.50 million represents total available funds remaining from various donor contributions provided during the implementation of the first phase (APL 1). (iii) Total program costs for the 3 years duration of APL II have been calculated using the wage rate and beneficiary coverage of the 2006 program. This may underestimate the overall financing gap over the three years. Conversely, the table does not reflect Phase 2 financing from several donors, including USAID and CIDA, which if forthcoming would greatly reduce the overall gap. Finally, any contingency funds that remaining unused during implementation will also contribute to a reduction in the financing gap.

287 The Institutional Support budget is partly covered from the program budget and partly from donors' own resources directly, i.e., not within the control of the Government. The details are presented in Table A.4 below

Table A7.4. Component 3 – Institutional Support: Estimated Costs and Financing
(in US\$ million equivalent)

Cost Areas	Estimated Total Costs
1 Capacity Building Interventions detailed in the Rainbow Study	\$13.00
2. Public Works: Monitoring and Evaluation	\$5.00
3. Institutional Support for Public Works Focal Units at federal and regional levels	\$3.00
4. Multi-Donor Trust Fund to support Program activities	\$3.00
5. DFID Call-out Fund for Technical Assistance	\$3.80
SUBTOTAL:	\$27.80
6. Management Cost @\$8.0 million per year over 3 years	\$24.00
TOTAL:	\$51.80
OF WHICH:	
(i) to be financed by Program Budget at Federal Level	\$45.00
(ii) to be financed outside of Government-Managed Program Budget	\$6.80

Note: Cost areas to be financed outside of the Program Budget include: (i) a DFID Call-down contract for TA and (ii) the Multi-Donor Trust Fund with contributions from EC, DFID, CIDA, and Ireland.

Annex 8: Implementation Arrangements

ETHIOPIA: Productive Safety Net APL II

288. The Productive Safety Net Program (PSNP) is a component of the larger Food Security Program (FSP) of the Government of Ethiopia. Food Security line agencies at every level of Government are accountable for the oversight and coordination of the Program, with implementation of program activities being undertaken by woredas and kebeles, line ministry/agencies and other partners. The roles and responsibilities of implementing partners are summarized below and described in detail in the Project Implementation Manual (PIM). Overall implementation will be carried out using existing Government structures of the Ministry of Agriculture and Rural Development, Ministry of Finance and Economic Development, and Disaster Preparedness and Prevention Agency, as described below

Federal Level

289 The *Ministry of Agriculture and Rural Development (MOARD)* is responsible for oversight and coordination of the Safety Net Program through the Federal Food Security Coordination Bureau (see below). It provides technical support for PSNP planning and implementation as necessary

290. As part of MOARD, the *Federal Food Security Coordination Bureau (FFSCB)* is directly answerable to the Minister of Rural Development. Its responsibilities include: (i) coordination and oversight of the PSNP to ensure that the program meets its objectives, (ii) ensuring appropriate linkages of the PSNP with other Food Security Program Interventions; (iii) allocating safety net resources to regions; (iv) providing technical support to regional food security offices on coordination and implementation of PSNP projects; (v) monitors overall capacity to implement PSNP activities; (vi) facilitating information exchange and documenting experiences and lessons learned across regions; (vii) preparing progress reports; and (viii) and monitoring and evaluating adherence to PSNP procedures and guidelines, effectiveness of utilization of resources, and program impact.

291. The *Federal Food Security Steering Committee (FFSSC)* provides overall advice to ensure the proper implementation of food security strategies and programs, including the Safety Net Program. The FFSSC is made up of representatives from MOARD (chair of FFSSC), the Federal Food Security Coordination Bureau (secretary of FFSSC), the Ministry of Finance and Economic Development (MOFED), the Ministry of Federal Affairs, the Disaster Preparedness and Prevention Agency (DPPA), the Ministry of Water Resources Development, Office of Women's Affairs, the Regional Food Security Coordination Offices, and the representatives of the donor community. Its responsibilities include: (i) providing advice and recommendations to MOARD to meet food security objectives; (ii) holding quarterly meetings on specific safety net issues; (iii) assessing resource contributions from government and donors; (iv) carrying out annual reviews of the Food Security Program; and (vi) assessing performance of monitoring and evaluation system including the Rapid Response Mechanism.

292. The *Federal Public Works Focal Unit*, located in the Natural Resources Department of MOARD, provides overall coordination and technical oversight of the public works component. Its responsibilities include (i) provide technical support and ensuring quality of public works; (ii) supporting capacity needs assessments for public works; (iii) supporting FSP's M&E system, Public Works Review, and Rapid Response Mechanism; (iv) developing policies for public works

planning and implementation; and (vi) assist FFSCB in the expansion of the PSNP to new regions and in the development of exit strategies through the sustainable rehabilitation of watersheds.

293. *Ministry of Finance and Economic Development (MOFED)* is responsible for disbursing safety net resources to regions based on the size of the targeted food insecure population and in line with requests submitted by FSCB. It is responsible for the overall financial management of the program, including management of the special accounts and pooled Birr account.

294. A *Joint Coordination Committee (JCC)* has been established for the PSNP, comprising representatives from the Government of Ethiopia and Donor Group. The Head of the FSCB chairs the Committee with support from the Chair of the Donor Working Group. The JCC has four main responsibilities: (i) to assess program performance and progress toward achievement of agreed benchmarks; (ii) make recommendations on appropriate responses to issues emerging during the implementation of the program, while ensuring consistency with the PIM and its annexes; (iii) make recommendations to promote linkages with other food security programs and the emergency interventions, and (iv) manage and oversee ad hoc measures in support of either regional or federal authorities to implement specific aspects of the program.

Regional Level

295. The *Regional Council/Cabinet* is responsible for the review and approval of food security and safety net annual plans and budgets submitted by woredas through the Regional Bureau of Agriculture and Rural Development (BOARD) and the annual and biannual progress reports on implementation of the regional Safety Net Program and utilization of its budget.

296. The *Regional Food Security Steering Committee (RFSSC)* provides advice to ensure the proper implementation of food security strategies and programs at the regional level. It also ensures the effective integration of the regional Safety Net Program into the regional development plan and participates in monitoring and evaluation of Safety Net Program activities including the Rapid Response Mechanism. The RFSSC is made up of representatives from the Regional Bureau of Agriculture and Rural Development (chair of RFSSC), the Regional Food Security Coordination Office (secretary of RFSSC), the Bureau of Finance and Economic Development (MOFED), the Bureau of Capacity Building, the Bureau of Water Resources, the Bureau of Cooperatives Promotion; and NGO representatives.

297. The *Regional Bureau of Agriculture and Rural Development (BOARD)* oversees the integration of safety net activities into the Food Security Program and the regional rural development strategy. It (i) provides overall guidance to the Regional Food Security Office and line bureaus to ensure coordination on planning and implementation of the regional Safety Net Programs; (ii) ensures efficient procurement where applicable; and (iii) reviews and provides feedback on reports submitted by Regional Food Security Coordination Offices on implementation of safety net interventions.

298. The *Regional Food Security Coordination Office (RFSCO)* reports to FSCB within the safety net framework. The RFSCO acts as secretary of the RFSSC. Its responsibilities include: (i) developing and consolidating annual implementation plans and budgets for regional Safety Net Programs in line with proposals from woredas and line bureaus; (ii) mobilize technical assistance as needed; (iii) identifying and monitoring capacity to implement PSNP activities at regional, woreda and kebele levels; (iv) ensuring implementation of the Environment and Social Management Framework; (v) holding quarterly review meetings with government and non-

governmental agencies involved in implementation of the Safety Net Program; (vi) approving NGO plans of safety net activities; (vii) coordinating monitoring and evaluation activities; (viii) preparing progress reports; and (ix) establishing and implementing the Rapid Response Mechanism.

299 The **Regional Public Works Focal Unit**, located in the Natural Resources Department of the BOARD, has responsibility for the effectiveness of the Public Works Program and acts as secretary for the Regional Technical Coordination Committee. Its responsibilities include: (i) preparing and reviewing community level planning formats; (ii) consolidating public works plans and budgets developed in the woredas; (iii) overseeing integration of community watershed plans into woreda plans; (iv) ensuring implementation of the ESMF through integration of the ESMF in the planning procedures and training for the PW program; (v) disseminating technical standards; (vi) overseeing woreda supervision of the PW, and providing technical backstopping; (vii) assessing the effectiveness of training, undertaking training needs assessments, and implementing training programs; (viii) supporting the M&E system of the RFSCO, especially on the Public Works Review; and (ix) knowledge management including identifying and disseminating best practices, reviewing standards and work norms, and identifying new technologies to enhance the quality and impact of public works.

300. A **Regional Technical Coordinating Committee (RTCC)** will be established in every Region. Chaired by the RFSCO, the RTCC coordinates the interaction and involvement of the relevant line bureaus and other PSNP actors in all aspects of the public works (PW) program. Its responsibilities include (i) reviewing the annual regional public works plan to ensure the feasibility of projects, a balanced portfolio of projects under PW; and inclusion of all PW actors; (ii) ensuring budget provisions for the operation and maintenance of new infrastructure in all sectors including health and education; and (iii) ensuring the active participation and technical inputs of the relevant line bureaus and offices in the implementation and monitoring of the PW program.

Woreda Level

301. The Woreda is the key level of government that determines needs, and undertakes planning and implementation of Safety Net activities. As the highest decision-making body at woreda level, the **Woreda Council/Cabinet** is responsible for the allocation of safety net resources to kebeles in line with size of vulnerable population and based on the recommendations of the Woreda Food Security Task Force.

302. The **Woreda Food Security Task Force (WFSTF)** is made up of the head of the Woreda Rural Development Office or the Woreda Administration (who acts as chairperson), and representatives from the Woreda offices of: Food Security (who acts as secretary), Finance, Natural Resource Office, Capacity Building, Agriculture and Rural Development, Women's Affairs, and NGOs. Inclusion of women in the committee is encouraged. The WFSTF (i) reviews and recommends kebele annual Safety Net plans for approval; (ii) consolidates annual woreda safety net plans and budget and prepare proposals for resource allocation to be submitted to Woreda Council; (iii) ensure close collaboration with Regional and Woreda Food Security Offices and Woreda Council; (iv) participate in monitoring and evaluation of safety net activities, including the Rapid Response Mechanism; (v) provides assistance to kebeles in establishing and training KFSTFs; (vi) holds quarterly progress review meeting on safety net activities; and (vii) reviews monthly progress reports on safety net activities.

303. The **Woreda Rural Development Office (WRDO)** oversees the integration of Safety Net activities into the Food Security Program and the woreda rural development strategy

304. The **Woreda Food Security Desk (WFSD)** coordinates Safety Net activities and are technically accountable to the RFSCOs. Their duties include: Its functions include: (i) ensure the preparation of pipeline of projects in consultation with the Kebele Food Security Task Force; (ii) mobilizing technical assistance as needed; (iii) undertaking monitoring and evaluation in coordination with woreda sectoral offices; (iv) holding quarterly technical review meeting with implementing agencies; (v) submitting progress reports to the Woreda Rural Development Office; (vi) maintaining accurate records of kebele Safety Net activities and list of beneficiaries; and (vii) providing information on target areas and selected beneficiaries to sectoral offices and other agencies involved in planning and implementing Safety Net activities.

305. **Woreda Sectoral Offices (Line Offices)** include woreda offices and desks of Agriculture, Rural Roads, Water, Natural Resource Management, Education, Health, Cooperative Promotion and Women's Affairs. Woreda sectoral offices are responsible for (i) incorporating PSNP activities in their yearly programs/action-plans; (ii) provide technical assistance and training to technical personnel and Kebele staff; (iii) consolidating proposals of the Kebele Food Security Task Force for incorporation to incorporate in the woreda Safety Net plan; (iv) undertaking project screening in accordance with the Environment and Social Management Framework; (v) preparing activity implementation plans and request budget for implementation; (vi) implement safety net activities at kebele and community levels; (vii) conduct monitoring and evaluation of activities; and (viii) preparing quarterly progress and financial reports.

306. The **Woreda Office of Finance and Economic Development (WOFED)** ensures that (i) the budget for the PSNP is received in a timely manner at the woreda level to guarantee smooth implementation of approved plans and activities; (ii) undertakes timely PSNP payments for beneficiary households, supervising personnel, and the purchase of relevant equipment and materials; and (iii) exercises necessary fiduciary controls and reports on fund utilization to Regional BOFEDs.

Kebele Level

307 The **Kebele Council/Cabinet** (i) approves kebele Safety Net beneficiaries; (ii) identifies people eligible for public works and direct support; (iii) identifies activities for Safety Net purposes; (iv) approves the kebele Safety Net plan; (v) ensures that the Safety Net program is linked, and consistent with, other food security interventions; (vi) maintains records on the status of beneficiary households; (vii) monthly reports; (viii) oversees food security activities in the kebele; and (ix) participates in the monitoring and evaluation system for the food security programs.

308. The **Kebele Food Security Task Force (KFSTF)** is a decision-making body that oversees all planning and implementation of safety net activities. It is formed in each Peasant Association (PA) or *Kebele* and builds upon previous institutional structures such as the Kebele Development Committee or Kebele Disaster Prevention Committee. KFSTF members include the Kebele Administration, Development Agents, Community Based Health Workers (CBHW), Teachers, Youth associations, etc. The minimum composition of the KFSTF includes: a Chairperson of the Kebele council, a member from the Kebele Council, one or more Development Agents (DAs) as available in the PA, three elected representatives of women's groups; and two elected representatives from elders and youth (one from each group). KFSTF's functions include: (i) community mobilization to identify and prioritize community needs; (ii) supporting DAs in

planning work with identified communities following participatory watershed planning guidelines and Line Bureaus specific proposals; (iii) targeting beneficiaries and participants for public works and direct support based on community targeting exercises; (iv) preparing Kebele Safety Net Plan in consultation with woreda sectoral offices; (v) maintaining minutes of KFSTF meetings on Safety Net issues, Kebele Safety Net activities, list of participants and progress reports; (vi) establishing and training of Community Food Security Task Force; and (vii) participating in monitoring and evaluation of safety net activities including the Rapid Response Mechanism.

309 ***Kebele Appeals Committees (KABs)*** will be established to hear and resolve appeals regarding Safety Net matters in a timely manner. KABs will (i) submit a complete listing of appeals cases, appeals resolutions, and unresolved appeals to the Kebele Council each quarter which will review them and forward them to the Woreda Council and the WRDO every quarter; (ii) meet within one month of the establishment of a new annual listing of beneficiaries to hear appeals submitted in their jurisdiction and to resolve a minimum of 95% of these cases within the month; and (iii) provide the listing of the appeals and the associated resolutions to the Kebele Council no later than 2 months after the announcement of the beneficiaries listing.

Community Level

310. The ***Community Food Security Task Force's (CFSTF)*** primary responsibility is the identification of beneficiaries of the PSNP. It is composed of representatives from the Kebele FSTF; a Development Agent, two to three each of women's and men's representatives (elected); a youth representative (elected); and an elder's representative (elected). The functions of the CFSTF include: (i) mobilizing the community for participatory planning exercises; (ii) undertaking a needs assessment, and identifying those households who can participate in public works and those without sufficient labor or other support who will need direct support; (iii) monitoring the public works; and (iv) participating in the regular review of safety net beneficiaries.

Annex 9: Financial Management and Disbursement Arrangements

ETHIOPIA: Productive Safety Net APL II

Introduction

311. The financial management (FM) assessment was carried out in accordance with the Financial Management Practices Manual issued by the Financial Management Board on November 3, 2005. The objective of the assessment is to determine whether the implementing entities have acceptable financial management arrangements, which will ensure: (i) that the funds are used only for the intended purposes in an efficient and economical way, (ii) the preparation of accurate, reliable and timely periodic financial reports, and (iii) safeguard the entities' assets. The results of the recently completed roving audit for the program, the Joint Budget and Aid Review (JBAR), and the Fiduciary Assessment (FA) have also been used in assessing the FM arrangements of the program. As part of the assessment the team visited MOFED, FFSCB, and Oromia Regional Bureau of Finance and Economic Development (BOFED). The team also consulted with other Development Partners (DPs).

Summary of Program Description

312. This is the second phase of the Productive Safety Net Program. The development objective of the overall PSNP series is to contribute to reducing household vulnerability and improving resilience to shocks. This will be achieved through reform of the humanitarian emergency system to a development-oriented program which provides timely, predictable and adequate transfers to beneficiary households, thus allowing effective consumption-smoothing and avoiding asset-depletion; creates productive and sustainable community assets; contributes to large-scale rehabilitation of severely degraded areas; stimulates local markets through demand linkages; and establishes more effective responses to shocks such as drought to avoid increasing destitution among affected households.

Country Issues

313. The Joint Budget and Aid Review (JBAR) and the Fiduciary Assessment (FA) show that Ethiopia has made significant progress in strengthening public financial management in recent years. The JBAR, which was conducted by the Bank in collaboration with other donors, reviewed the Public Financial Management (PFM) system using the internationally recognized Public Expenditure and Financial Accountability (PEFA) framework. Out of the sixteen indicators covered in the JBAR, fourteen were on government's systems for public expenditure planning, budgeting and reporting. Ethiopia scored high on seven of the fourteen indicators, i.e. macroeconomic management, including aggregate fiscal discipline and minimizing fiscal risks. The JBAR observes satisfactory progress in budgeting and accounting reform but notes that the adequacy and quality of budget reporting leave room for improvement and remain a key concern.

314. The FA, which was completed in early 2005, notes that considerable progress has been made in implementing PFM reforms at both federal and regional levels. The areas of improvements include budget processes, internal controls and cash management. Also, some steps have been taken in reforming internal and external audits. The FA identifies some weak areas that require attention. These include delays in financial reporting (both in-year and annual), inadequate capacity of the auditors-general to discharge their responsibilities, and weakness in legislative scrutiny of audited financial reports. The status of PFM reform and performance varies

between regions. The roll-out of PFM reforms occurred first in SNNP and Tigray regions, with the support of the Government and donors. These regions both show improvement in the overall public finance function and a consequential reduction in fiduciary risk. Other regions are at an earlier stage of investment in PFM or have not yet commenced their plans and therefore demonstrate less progress in PFM improvement. More recently, Amhara and Oromiya have improved their performance significantly, as evidenced by timeliness in closure of accounts and budget and accounts reforms.

315. The FA notes that in all regions there continues to be capacity and staffing issues in areas such as audit as a result of a shortage of accountants. The staffing situation is further exacerbated by lower civil service remuneration and incentives relative to the private sector. To address this situation, the Government is building 13 additional universities and new private universities are also being opened in various parts of country. As a result the number of graduates in the area of accounting will increase substantially. Absence of a national professional accounting association to train and certify accountants and auditors is also one of the causes for the relatively small number of certified accountants in the country. The Government is in the process of establishing a Board to certify accountants and auditors.

316. Ethiopia's public financial management reforms have been carried out through the Expenditure Management and Control sub-Program (EMCP) of the government's civil service reform program (CSRP). EMCP has developed a revised strategic plan to implement the nine components of the sub-program. Mobilization of resources in support of the EMCP, which is a key component of the Public Sector Capacity-building Program (PSCAP), is now a priority in order to achieve further improvement in all aspects of financial management.

Risk Assessment and Mitigation

RISK	RATING	RISK MITIGATING MEASURES	CONDITION OF OPERATION	REMARKS
<i>Inherent Risk</i>				
Country Level	S	There is a capacity building component in the program to support MOFED, BOFEDs and WOFEDs to recruit additional accountants, procure basic equipment and provide regular training	N	Various PFM reforms, such as budget, accounting, cash management, internal and external audits, are being undertaken at federal and regional levels. This risk arises from weak capacity, including shortage of qualified accountants and auditors. It is being addressed by the Government outside this Program through the ongoing CSRP which is supported by PSCAP. Also, the Private Sector Development Capacity-building Program is supporting some private sector initiatives
Entity Level	S	As above	N	As above
Program Level	S	As above	N	As above

Control Risk				
Budgeting	L		N	
Accounting	M	Regular training to be provided to regional and woreda level finance staff and the program will avail resources to support these activities	N	The Government is providing a long-term solution through the ongoing CSRP
Internal Control	M	Internal audit activities will be augmented by external reviews by DPs and independent external auditors.	N	The Government is providing a long-term solution through the ongoing CSRP
Funds Flow	M	MOFED and BOFEDs to strictly follow the transfer of funds. Intensive reviews of detailed expenditure statements by auditors; FM supervision by DPs, including review of financial reports at all levels	N	
Financial Reporting	S	Recruitment of additional accountants and provision of regular training will mitigate delays in submitting timely reports from lower levels. Out of the required 619 accountants and auditors, the government has so far hired 512 accountants and cashiers at all levels	N	Delays in submitting regular financial reports observed for the first phase of the program. Reporting format has been agreed at Negotiations.
Auditing	S	MOFED has issued directive to close Federal accounts six months after the end each fiscal year; Regions are also in the process of issuing similar directives to this effect; and external auditors to complete the audit within three months after the receipt of draft accounts. MOFED agreed to hire consultants (as the need arises) to facilitate the timely closure of project accounts.	Y	Reduction in backlog of federal accounts closure has been reduced to one year. Delays in submitting roving and annual audit observed for the first phase of the program

H = High S = Substantial M = Moderate L = Low

317 In view of the general country financial management issues and the issues peculiar to PSNP, the overall financial management risk rating for this Program is assessed as **substantial**.

Strengths

318. A key strength of this Program is that it avoids setting up parallel systems for the flow of funds, recording financial transactions, reporting and auditing. The government's existing arrangements are already being used for Phase 1 of the program. The Government is improving on its systems. As noted in the FA that was completed in 2005, "in terms of the overall Fiduciary Risk, Ethiopia has the positive aspect of a program of improvement in place".

Weaknesses and Action Plan

319 The main weaknesses include delays in reporting, shortage of qualified accountants and auditors, limited focus of internal audit, and delayed staffing of the external audit function. Late submission of regular reports was clearly seen in the first phase of the program. Moreover, due to procurement-related delays, the first roving audit covering forty woredas commenced in early 2006 and was received only by the end of August 2006, one and half years after effectiveness of the Program. The roving audit identified the need for improvement on the accounting and reporting of program funds, although the majority of woredas demonstrated that they were maintaining good control despite capacity constraints. Furthermore, the flow of funds and reporting arrangement was changed from MOFED-MOARD-BOARD-WOFED to MOFED-BOFED-WOFED starting 1 January 2006. The financial reports for the period 1 January 2006 to 30 June 2006 were submitted to the Bank on 13 November 2006, three months after the due date. During the pre-appraisal mission of October 2006, it was agreed with the government that future quarterly financial reports would be submitted to donors 60 days after the end of each quarter. Furthermore, the government has taken action on issues identified in the roving audit (absence of separate bank accounts for PSNP, attendance sheets not attached with payrolls, payments without approved payrolls etc) and a progress report on measures taken will be submitted to donors by April 2007 PSNP Joint Review and Implementation Support Mission.

320. There are many agencies involved in the implementation of this Program, which calls for strong coordination and monitoring by the main executing agencies. Woredas are expected to submit financial reports to the Regions for consolidation. The regions then transmit the reports to the federal level. This is a long process which is prone to delays and there could be delays in submitting financial reports to DPs, which may also result in delays in replenishments of Designated Accounts. Obtaining timely and relevant financial reports was noted as a problem in most of the diagnostic work conducted for Ethiopia.

Action Plan

Weaknesses	Action	Responsible Body	Completion Date
The Program is implemented by various agencies, including regions and woredas	<ul style="list-style-type: none"> Strengthen the monitoring capacity at the federal and regional level Regular supervision by DPs 	<ul style="list-style-type: none"> MOFED, BOFEDs, MOARD, and BOARDs World Bank and other DPs 	Ongoing
Auditing the Program financial statements may take time to complete as the implementing agencies are many and dispersed all over the country	<ul style="list-style-type: none"> Closing program accounts five months after the end of each fiscal year Completion of the audit four months after the receipt of the draft accounts 	<ul style="list-style-type: none"> MOFED External auditors 	Ongoing
Regular financial reports may not be received on time from regions	<ul style="list-style-type: none"> Woredas to submit monthly reports 20 days after the end of each month Regions to submit quarterly reports 30 days after the end of each quarter MOFED to submit quarterly financial reports 60 days after the end of each quarter 	<ul style="list-style-type: none"> WOFEDs BOFEDs MOFED 	Ongoing

Implementing Entities

321. At the Federal level, MOFED is responsible for the overall financial management of the Program. MOFED will be responsible for the management of the designated accounts (donor financing), and the pooled Birr account. MOFED will be responsible for producing regular financial reports and facilitating the annual audit of the PSNP account.

322. At the regional level, BOFEDs are responsible to ensure that a suitable accounting system covering both regional and woreda levels is established. BOFEDs will collect and aggregate all financial data and information from woredas on the Safety Net Program disbursements. They will review the effective use of accounting procedures by woredas. They will also provide technical support and assistance to woreda financial personnel to help them develop the needed skills and competences to carry out their functions. Each region will prepare monthly, quarterly and annual reports, which will be sent to the federal level.

323. At the woreda level, a suitable accounting system is established for the disbursement of funds for activities financed under the PSNP. The records of funds utilized will be maintained in accordance with sound accounting practices that are capable of generating accurate and timely information for verification. Woreda accounting personnel received training on how to maintain accurate accounts for the funds utilized and the same type of training will continue in the second phase of the Program. In case woredas face difficulties in accounting or handling financial records, the region will provide timely assistance and training to resolve such difficulties.

Budgeting and Planning

324. The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. The budget is processed at federal, regional, zonal (in some regions), and woreda and municipality levels. The federal budgeting process usually starts by issuing the budget preparation note to the Budgetary Institutions (BIs). Based on the budget manual, the BIs prepare their budgets in line with the budget ceilings and submit these to MOFED within six weeks following the budget call. The budgets are reviewed at first by MOFED and then by the Council of Ministers. The final recommended draft federal budget is sent to parliament in early June and is expected to be cleared at the latest by the end of the EFY. The Joint Budget and Aid Review by Government and Development Partners note the need for the budget process to be more transparent and systematic in the areas of administration of federal transfers and inter-sectoral allocation, and budget reviews.

325. According to the Government's Chart of Accounts, PSNP will be proclaimed annually as a *Sub-Program* under FSCB in MOARD, which is designated as a *public body*. Each region should prepare a consolidated PSNP Plan for each budget year and submit the same to FFSCB. Based on instruction from MOARD, MOFED transfers money to BOFEDs and BOFEDs in turn transfer money to Woredas against approved budget for woredas and instructions from RFSCO. WOFEDs, based on the approval of the Woreda Councils, disburse money to beneficiaries.

Accounting Policies and Procedures

326. The Government's accounting policies and procedures will be used for this program. Starting from July 2002, the Government has introduced a double entry modified cash basis of accounting. The new reform has been introduced at the federal level and in most of the regions, namely, Amhara, Addis Ababa, Tigray, SNNP, Oromiya, Benshangul, Dire-dawa and Harari and

it is also being rolled out in other regions. Some of the regions and federal line-ministries are using a computerized Budget Disbursement and Accounting (BDA) System.

327 The main elements of the accounting reform are the adoption of (i) a revised and comprehensive chart of accounts consistent with the new budget classification, (ii) a system of ledgers accommodating all types of accounts (including transfers, assets, liabilities and fund balance in addition to revenues and expenditures), (iii) double entry book-keeping (thus, self-balancing set of accounts), (iv) a system of control of budgetary commitments (recording commitments as well as actual payments), (v) modified cash basis transaction accounting, and (vi) revised monthly report formats to accommodate double-entry book-keeping and commitment control and permit better cash control.

328. Currently, there is a lack of unified accounting system among all Regional governments. All regions are using the BDA system, but different Regions are using different versions. Most of the regions are using modified cash-basis of accounting on a double entry accounting system and some of the regions are using cash-basis of accounting using single entry accounting system, which makes it difficult to consolidate financial reports at federal level.

Internal Audit

329 MOFED and BOFEDs have internal audit departments performing post-audit activities on all the financial transactions of the entity. This involves an assessment of whether the budget utilization is in line with the intended purposes. The staff of the internal audit departments varies from region to region. Each WOFED has an internal audit unit responsible for the audit of financial transactions. The Country Financial Accountability Assessment (CFAA) report for Ethiopia recommended that the Government should consolidate the organizational structure, and redefine the work and duties of the internal auditors to better address the need of the government. This has been implemented and the Inspection Department in MOFED now acts as an internal audit regulatory body while the internal auditors in sector ministries conduct the audit activities. The Internal Audit Department in MOFED, in collaboration with the Office of the Auditor General, prepared a user manual and provided training to internal auditors on the manual. The FA notes the need to enhance the independence of the internal auditors. Moreover, there is a need to carry out similar reforms in the Regions and Woredas. The Expenditure Management and Control Sub-Program (EMCP) of the Civil Services Reform Program, amongst other things, focuses on further improving the internal audit function.

330. For PSNP, the internal audit section in each of the implementing agencies will perform internal audit activities of the financial transactions.

Staffing

331. The staffing level in the implementing agencies varies in number and quality. For example, the accounts unit in MOFED has 29 staff, out of which 7 are degree holders and the others have college diplomas.

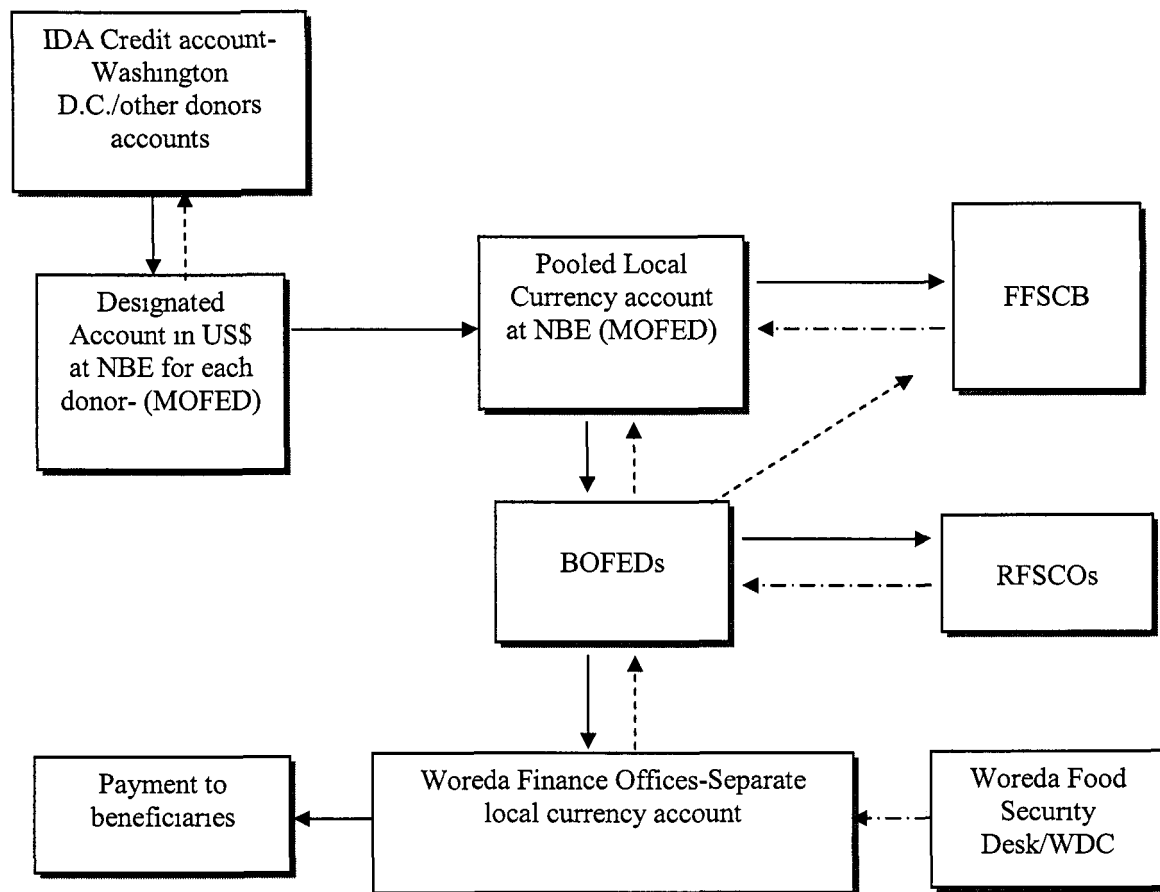
332. In general, MOFED, BOFEDs, and WOFEDs have inadequate finance staff to handle both the government and donor financial transactions. The recent FA report noted the lack of trained staff at all levels of government.

333. Recent reports (for example the Rainbow Report from 2005 and the October 2006 Joint Review and Implementation Support Mission) revealed staffing gaps at the woreda, regional and

federal levels. It was agreed that the Government should hire one additional accountant at MOFED, two accountants at each of the BOFEDs, and one accountant and two cashiers at the woreda level dedicated to the PSNP. In a letter dated 15 November 2006, MOFED has indicated that the number of accountants and cashiers required at all levels for the PSNP is 619. Of these, 512 accountants and cashiers at woreda, region and federal levels have already been hired and in place for the PSNP. MOFED will complete the recruitment process in the next few months and will report on the financial management staffing situation for the Program every six months.

Flow of Funds

Flow of funds and reporting arrangements:



Legend:

Flow of funds: —————>

Flow of reports: - - - - ->

Instruction to transfer money: ->

334. MOFED opens a US\$ designated account at the National Bank of Ethiopia for each financing partner. Each financing partner will transfer money in line with disbursement percentages to be agreed among donors. In addition, MOFED opens a birr account into which funds from the donors' designated accounts will be pooled and deposited. MOFED is responsible for the day-to-day management of the designated accounts and the pooled birr account.

335. The FFSB requests MOFED to transfer funds to BOFEDs based on approved PSNP plan and budget. Each BOFED then transfers funds to Woreda Finance Offices based on approved Woreda Safety Net Program plan.

336. WOFEDs, based on request from the Woreda Food Security desk, effect payments to safety net beneficiaries, either those who have participated in public works or those who are entitled to direct support. WOFEDs require a number of cashiers to then go from kebele to kebele to distribute the cash to beneficiaries.

337. Funds are being deposited at regional and woreda level into a dedicated bank account for PSNP financing. Woredas are encouraged to report the utilization of funds to BOFEDs on a monthly basis, and BOFEDs prepare consolidated financial reports at regional level and forward that to MOFED and FFSCB on a quarterly basis. Frequent submission of financial reports ensures smoother cash flow in terms of fund availability at the woreda level for all PSNP activities. The formats for financial reports are attached with the minutes of negotiation. The consolidated financial reports by MOFED should be submitted to donors on timely basis, but not later than 60 days after the end of each quarter.

Disbursement Methods

338. The Program will start with the disbursement methods based on designated Account Advance, Direct Payment and Special Commitment. For APL I, replenishment of the special account (designated account) was being made on the basis of confirmation of receipt by woredas. This method was agreed between the Bank and the government on exceptional basis given the nature of the program. In order to provide additional assurance on the proper utilization of funds, an independent review of the woreda transactions by an audit firm, was agreed during negotiation, i.e. the roving audit. As stated above, the first report of such review covering forty woredas was received by donors at the end of August 2006.

339. Disbursement of IDA funds (for APL II) to MOFED will be based on Interim unaudited Financial Reports (IFRs). An advance will be made into a designated account immediately after effectiveness. The advance will cover project expenditures for six months as indicated in the initial six-month cash flow forecast. Subsequent replenishments to the Designated Account (DA) will be made on quarterly basis (60 days after the end of the relevant quarter). MOFED will submit IFRs, DA activity statement, summary of DA statements of expenditures for contracts subject to prior review, and expenditure forecast for the next six months to the Bank for replenishment. The projected cash requirement from the Bank will be the Bank's share of expenditure forecast for the next six months less balance in the DA at the end of the quarter.

340. The option of disbursing the funds through direct payments and special commitments from IDA on contracts above a pre-determined threshold will also be available. Withdrawal applications for such payments will be accompanied by relevant supporting documents such as copies of the contract, suppliers' invoices and appropriate certifications. Detailed disbursement procedures are available in the FMR guidelines issued by the Bank on 30 November 2002 and disbursement Handbook for World Bank clients issued on May 2006.

Minimum Value of Applications

341. The minimum value of Direct Payment and Special Commitment will be US\$ 100,000.

Reporting on Use of Grant Proceeds

342. The supporting documentation for reporting eligible expenditures paid from the designated account should be IFRs, list of payments against contracts that are subject to the Banks' prior review, and bank statements and bank reconciliation for the DA. All these requirements will be indicated in the disbursement letter. All contracts valued above US\$ 150,000 for works and goods, US\$ 100,000 for consulting firms and US\$50,000 for individual consultants and should be accompanied by relevant supporting documents.

343. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt, supplier's invoices, etc).

344. All supporting documentation will be retained at the offices where the transaction took place and must be made available for review by periodic World Bank review missions and external auditors.

345. The computerized BDA system enables public bodies to produce financial reports. Capacity-building will be required in order to accelerate the rollout of the BDA system. As it stands now, the new chart of accounts is capable of recording the financial transactions of the Program and then producing the required regular reports.

346. Financial regulations of regions require that Woredas should submit monthly financial statements to regions 15 days after the end of each month. In practice, there are delays in submitting monthly financial reports to regions. The main cause of delay is the lack of finance staff in most of the woredas. As a result of this, regions are not able to close their annual accounts on a timely basis.

347. The Bank requires IFRs to be submitted 60 days after the end of each quarter. MOFED will be responsible for the preparation of the IFRs. The formats of the IFR have been discussed and agreed.

Designated Account

348. The designated account will be managed by MOFED. The currency for designated account will be United States Dollars.

349. The total allocation of the Designated Account will be two quarters requirements.

Counterpart Contribution

350. The Government has agreed to provide in-kind contributions to the Program as a whole, with an estimated monetary value of about US\$ 2 million equivalent. To facilitate the efficient implementation of Project activities, the Government must make all arrangements necessary to ensure the timely provision of its contributions.

Allocation of Grant Proceeds

Expenditure Category	Amount in US\$ million	Financing percentage
(1) Safety Net Grants	141.00	Such % as to be decided by development partners periodically
(2) Drought Risk Financing	25.00	
(3) Institutional Support	4.00	
(4) Unallocated	5.00	
Total	175.00	

External Audit

351. According to the Ethiopian Constitution, the Office of Federal Auditor General (OFAG) is responsible for carrying out the audit of all the financial transactions of the federal government and subsidies to the regions. Each of the regions has a regional Auditor General responsible for auditing financial transactions in the region. The OFAG usually delegates its responsibility mostly to the Audit Services Corporation, the government-owned audit firm, and in some cases to private audit firms to carry out the audit of donor-financed projects.

352. According to the audit policy of IDA, MOFED will prepare consolidated Program accounts, which include all the sources from donors and the Government and related Program expenditure and the auditors will express a single opinion on the consolidated Program accounts. Considering the nature of the Program, the audit reports should be submitted to IDA nine months after the end of each fiscal year, which ends on 7 July of each year.

353. In addition to the annual financial statements audit, an independent audit firm will conduct a review of the financial transactions of the program. A TOR has been agreed with the government and independent audit firms have been doing the review of the financial transactions of the program at the woreda level for the first phase of the program and this will continue for the second phase. In the first phase of the program, it was agreed that the independent audit firm would cover forty woredas each year so as to cover the whole woredas covered under this program in five years, the life of the program. Starting for 2007, in order to cover forty woredas per year, the audit firm should visit at least 10 woredas each calendar quarter. Another difference between APL I and APL II is that the annual sample of 40 woredas will include a re-survey of 5 woredas which had already been covered in earlier rounds in order to verify whether remedial action has been undertaken. The reports of the roving audit will be submitted to the Government of Ethiopia and to the financing partners for review and comments 60 days after the end of each quarter. The roving audit is an additional control to ensure that the proceeds of the grant are used for the intended purposes. It is an invaluable tool to take corrective actions on issues raised on a timely basis and thus provides comfort to both donors and government.

354. The audited program accounts for the period ended December 31, 2005 were due to be submitted by September 30, 2006. The Government has confirmed that a draft audit report is currently undergoing management review and that it expects to submit the final report to the Bank by mid-December 2006. The submission to the Bank of the final audit report along with a remedial action plan based on a review of the findings by the Bank is a condition of effectiveness for the project.

Conditions

355. The following will be conditions for effectiveness and disbursement:

Effectiveness

- The Recipient has furnished to the Association a satisfactory final report in respect of the 2005 PSNP annual audit, together with a remedial action plan, if needed, both satisfactory to the Association.

Disbursement

- For Component 2, submission to IDA of a Drought Risk Financing Manual satisfactory to IDA indicating the criteria to be used, institutional responsibilities, contingency planning process, and timeline for determining resource allocations to program woredas; and a workplan satisfactory to IDA showing the specific woredas and number of beneficiaries by woreda to be covered with these resources.

Financial Covenants

- MOFED will submit the audited Program accounts to IDA nine months after the end of each fiscal year. The fiscal year ends on 7 July of each year. The audited financial statement will include all sources of funds for the Program, including other donors and the government.
- MOFED will submit quarterly IFRs (Interim Financial Monitoring Report) to IDA sixty days after the end of each quarter period.
- MOFED will submit a progress report on the financial management staffing and training situation for the PSNP at each of the first three reviews, i.e., April 2007, September 2007 and April 2008.

Supervision Plan

356. This Program is implemented all over the country. It is a highly decentralized Program with a total amount of about US\$ 225 million over a year. There will be at least two joint donor supervision missions per year and in each supervision mission at least one to two regions will be visited to verify that the funds are used for the intended purposes.

Annex 10: Procurement Arrangements

ETHIOPIA: Productive Safety Net APL II

General

357 **Procurement Environment:** The procurement environment of Ethiopia was described in detail in the Country Procurement Assessment Report (CPAR) of June 2002. The report pointed out that public procurement at Federal level in Ethiopia was based on three main legal documents: (i) the Financial proclamation No. 57/1996 (Procurement Law), (ii) the “Financial regulations No. 17/1997 issued by the Council of Ministers and (iii) the Ministry of Finance Directives of procurement and contracts, issued in 1997 and revised in 1999. The same report also pointed out to the main strengths and weakness of the Federal system and suggested ways to improve procurement management in the country through an Action Plan for an extensive procurement reform. The main weaknesses identified by the CPAR were (i) lack of an independent oversight body for procurement policy and monitoring (ii) inadequate public procurement procedures and practices, (iii) lack of a proper legal and regulatory framework and (iv) lack of adequate procurement capacity, in particular at woreda level. The CPAR report recommended, *inter alia*, that (a) a more comprehensive procurement law be enacted, (b) a policy and monitoring body be established (c) standard bid documents, manuals and guidelines be drafted and (d) a massive program of capacity building be undertaken at both federal and regional level.

358. The Government followed through with the Action Plan by first establishing a procurement task force which would lead the process for a wide range procurement reform. The reform process started at the end of 2002 and has continued to date with the following results (i) a new more comprehensive procurement code has been established at federal and at regional level (so far at 3 regions), (ii) an independent Public Procurement Agency with monitoring functions has been established, (iii) new Federal Procurement Directives released in July 2005, (iv) a number of standard bid documents consistent with international practices have been prepared and distributed to Federal and Regional government bodies, and finally, and (v) procurement has been fully decentralized to the Regions. Gaps in capacity building however still remain as the massive training program envisaged by the CPAR Action Plan could not be implemented in full.

359 **Institutional Setup for Procurement:** Ethiopia has had several years of experience with multi-donor collaboration in several sectors related to present project. In addition. The first stage (APL-1) of the project has been under implementation for about two years. The new project therefore will be able to count on previous institutional experience. In general, MOARD’ foreign procurement unit will have primary responsibility for ICB contracts for goods and for international consulting services. MOARD has the option to use external TA for activities such procurement management, design and supervision. At Regional level, the procurement section of BOARD (and other line ministries) will have the primary responsibility for NCB procurement for goods and procurement of consulting services from national firms and individuals. Regional bureaus also have the option to recruit technical assistants to help in the planning and supervision activities. At Woreda level, those with adequate procurement capacity may also undertake procurement for goods and larger civil works following established national competitive procedures. Woredas will have primary responsibility for shopping and small-scale procurement of works. Contract awards will follow established Government procedures regarding composition and mandate of the tender committees.

360. **Procurement Guidelines and Plan:** Procurement for the project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods and estimated costs, together with prior review requirements and time frame for implementation, has been agreed between the Borrower and the Bank and described in a Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity

361. **Standard Bid Documents and Manuals:** The Bank's standard bid documents (SBD) will be used for all tenders for procurement of goods under International Competitive Bidding (ICB). Domestic preference would be used in the cases in which a truly developed manufacturing industry is in place, as for conventional office furniture. In the case of procurement of works, no ICB is expected given the small size of most contracts. The Government's standard bidding documents were reviewed by the Bank and found to be generally consistent with the Bank's guidelines and procedures. The Government's standard bidding documents will be used in the case of NCB and shopping with appropriate changes to make them compatible with the Bank's guidelines and acceptable to the Bank. A copy will be included in the PIM. In the case of consulting services, the Bank standard Request for Proposal (RFP) and standard time-based and lump-sum contracts will be used for all major assignments.

362. **Procurement of Works:** Works constitute the bulk of procurement under Component 1 of the project. They consist of a very large number of small-scale labor intensive subprojects and will be carried at *kebele* level with direct participation of the beneficiaries. The selection of works at community level will be driven by a local planning process and based on the standardized designs of the "Community based watershed Management Guidelines" distributed to the Woreda by MOARD.. The sub-projects would include reclamation programs such as water and soil conservation projects, rehabilitation of pasture land and access roads, agro-forestry projects and development of water wells. Works would also include rehabilitation of roads and bridges in rural areas, repair of water conduits and health facilities, building of market sides and livestock conservation programs in pastoralist areas. Works will be carried out under the direct supervision of the *woreda* technical teams using simplified bid documents acceptable to the Bank. The vast majority of the works will be executed under "*Community Participation*" procurement method described in Section 3.17 of Bank Procurement Guidelines. Details of procedures to be used under community participation for award, management and supervision of the contracts in addition to sample bid documents and contracts will be included in the PIM for the project. Larger contracts for works will be awarded by the Woreda or Regional bureaus on the basis of *National Competitive Bidding (NCB)* procedures using Government' bid documents and procedures, reviewed by the Bank and found consistent with Bank Guidelines.

363. **Procurement of Goods:** Goods to be procured under the project include computers, GIS equipment, small furniture and office equipment, etc. A list of the items together with a cost estimate and a preliminary procurement plan will be completed at appraisal. Goods will be packaged whenever possible in packages higher than US\$150,000 and tendered under *international competitive bidding (ICB)* following the procedures described under Sections 2.1-2.65 of Bank procurement Guidelines. In addition Bank's Standard Bidding Documents would be used for all ICB contracts. Most contracts under the project are expected to be under the monetary value of US\$150,000 equivalent and will be tendered through National Competitive Bidding (NCB) following procedures consistent with Bank Guidelines. Contracts to be awarded at Woreda / Kebele level are generally very small and below the monetary threshold of US\$50,000 and will be awarded under *National shopping (NS)* or *Direct contracting*. Goods may also be procured from UN agencies such as *IAPSO* provided that individual contracts do not exceed US\$150,000.

364. **Procurement of Food:** The Food Security Coordination Bureau will delegate the procurement of foods to the DPPA. The procurement procedures for purchasing food locally and internationally will be described in the PIM. The PSNP will feature distribution of both food and grants to targeted beneficiaries. The Bank may contribute through provisions of grants to food insecure households and as a wage payment for the households who can participate in public works. Only when grants will not allow households to meet their needs such as when a local market is not in place, the same grants would be received in kind. NCB and shopping will be the procurement methods for food following the thresholds set in the procurement plan, and the ICB threshold will not be triggered. In the event of a major shortage of food domestically, ICB will be used to procure food.

365. **Procurement of Non-consulting Services:** Procurement of non-consulting services (e.g. transport) will follow procurement procedures similar to those stipulated for the procurement of goods depending by their nature. Methods commonly used include competitive methods such as NCB for contracts above an estimated monetary amount of US\$50,000 and shopping. Commercial methods of common use in Ethiopia may be used for smaller contracts and whenever competition for the contract would be very limited.

366. **Selection of Consultants:** The project will make use of consultant services for studies, baseline surveys, impact assessment, automation of MIS and other services. Contracts above US\$100,000 will be awarded through the use of the *Quality and Cost based Selection (QCBS)* described under Sections 2.1-2.31 of the Consultant Guidelines. Consulting Services for audit and other contracts of a standard or routine nature may be procured under the *Least Cost Selection method (LCS)* described under Section 3.6 of Bank Consultants guidelines. Consulting assignments costing less than US\$100,000 may be procured through the *Selection Based on Qualifications (CQS) method*: Short lists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Contracts for individual consultants will be advertised on national papers of wide circulation to allow for the drafting of shortlists. Single-source selection can be used in accordance with Section 3.9 of the Bank Consultant Guidelines.

367 **Operating Costs:** Expenditures made for operational costs such as fuel and stationery will follow Ethiopian Government practices following the Federal, Public Procurement

Directives, July 2005 or, whenever similar Directive do not apply, commercial practices commonly used for the same purposes.

Assessment of the Agency's Procurement Capacity

368. The assessment of the capacity of the Implementing Agency to implement procurement at Federal level was carried out in several occasions both during the 2002 CPAR and appraisal of several projects in the following years. The assessment reviewed the organizational structure and the interaction between the project's staff responsible for procurement and found it adequate for the project. The assessment of the procurement capacity of the Regional bureaus and Woreda offices was done by the Government in 2004. Capacity was found to be uneven with only a few Regions having adequate capacity to plan and carry out international tenders. Most of the Woredas were found capable to handle simple procurement procedures such as NCB and shopping that constitute the bulk of the project. An updated assessment of procurement capacity was also carried out at appraisal (October 2006) at federal level. Given the recruitment of one procurement staff and one capacity building coordinator at FFSSC level and the proven experience by the MOARD Foreign Procurement Unit, capacity at Federal Level can be considered adequate.

369 Key issues and risks identified during the assessment at Regional level include: (i) Inadequate number of qualified procurement staff (ii) Inadequate planning and scheduling capacity (iii) resistance to use qualified TA even when proven necessary Corrective measures agreed with the Government include: (a) continuation of training courses in project management and procurement, (b) more stringent directives concerning preparation of work programs and implementation schedules, (c) availability of funds for the use of TA for procurement management, supervision, drafting of TOR and evaluation of proposals, and (d) there would be a qualified Procurement staff at the FSB at all time to act as liaison between the FSB and Procurement department and facilitate the procurement process at the procurement department. In addition the person should assist the department in the preparation of bidding document, BER and procurement processing as appropriate. Procurement workshops will be carried out annually to improve Woreda capacity to plan, package and implement procurement activities for sub-projects.

370. The project risk for procurement has been assessed as AVERAGE at Federal and Regional level given the experience accumulated during APL-1 by the MOARD Foreign Department Unit and the recruitment of new procurement staff at the FFSSC. Risk is still assessed as HIGH at Woreda and Kebele level given the lack of staff experienced in procurement and poor planning and coordination skills.

Procurement Plan

371. The Borrower has drafted a procurement plan for the project which has provided the basis for the procurement methods and implementation schedule. The procurement plan has been reviewed and further refined during Appraisal. The final plan will be included in the project's database and made available for inspection at each Regional bureau. The Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity

372. The FSB would conduct post procurement review by an independent consultant at least once a year and that would cover at least 20% of the woredas each year.

Frequency of Procurement Supervision

373. In addition to the prior review of procurement actions under ICB and QCBS to be carried out from the Bank Country Office in Addis, at least two supervision missions will be carried out yearly to carry out post review of procurement. Under APL II, and starting in 2007, a post-procurement review will also be conducted annually as part of the roving audit function.

Details of the Procurement Arrangements Involving International Competition

For Goods, Works, and Non Consulting Services

(a) List of contract packages to be procured:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost (US\$)	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
1	Office equipment (computers, printers, photocopiers) and accessory for Regions and federal offices	600,000	ICB	NO	NO	PRIOR	July 2007	
2	Printing and Communications	150,000	NCB	NO	NO	POST	August 2007	
3	Transport	40,000	Shopping	NO	NO	POST	March 2007	

(b) ICB contracts estimated to cost above US\$150,000 equivalent per contract and all direct contracting above US\$50,000 will be subject to prior review by the Bank.

For Consulting Services

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
1	Follow-up survey of households	160,000	SSS	PRIOR	April 2008	Central Statistical Authority (CSA)
2	Development and roll-out of automation of MIS System at woreda level, and training of woreda staff	150,000	QCBS	PRIOR	April 2007	
3	Semi-Annual Public Work Reviews	150,000	IC	POST	February 2007	Three reviews; 8-9 individuals; individual contracts to be below US\$50,000; consolidation and coordination is done by FSCB
4	Beneficiary Satisfaction Assessment	125,000	QCBS	PRIOR	March 2007	
5	Annual Audit of operations	100,000	Direct Contracting	PRIOR	Ongoing	Office of the Auditor General appoints a firm
6	Roving audit – Part 1 – Financial Transactions	110,000	QCBS	PRIOR	Ongoing	Ongoing contract for one year; new contract for second year expected below \$50,000
7	Roving audit – Part 2 – Woreda Level Procurement	110,000	QCBS	PRIOR	September 2007	Two rounds
8	Roving audit – Part 3 – Appeals Process	110,000	QCBS	PRIOR	March 2007	Two rounds

(b) Consultancy services estimated to cost above US\$100,000 per contract and single source selection of consultants (firms) for assignments estimated to cost above US\$50,000 will be subject to prior review by the Bank.

(c) Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per individual contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 11: Safeguard Policy Issues

ETHIOPIA: Productive Safety Net APL II

Environmental Assessment Procedures

374. The principal instrument for ensuring that projects are designed to avoid or minimize negative environmental impacts under both the World Bank's safeguard policies and those of the GOE is Environmental Impact Assessment (EIA).²⁶ The World Bank's Environmental Assessment policy (OP 4.01) is applicable. However, being community-based, on a micro-scale, and not identified in advance, public works in the PSNP will not normally require separate EIA. Instead, the EIA requirements will be addressed through an Environmental and Social Management Framework (ESMF), which has been developed by GOE and disclosed.

375. Under the PSNP, a number of potential public works are identified at kebele-level through a community-based watershed management planning process which prioritizes activities contributing to improved watershed management and infrastructure. The ESMF specifies criteria from the list public works suitable for PSNP support, avoiding locations or project designs which might give rise to unmanageable impacts. Having thus developed a shortlist of potential public works, design work is carried out by the DA with assistance as required from woreda technical staff. The resultant kebele PSNP public works plan is then submitted to the woreda offices, where a simple ESMF screening procedure is adopted in order to ensure that negative impacts are avoided or minimized, and that any public works that may require EIA are identified. Given the nature of the public works, such cases are infrequent.

376. Development Agents (DAs) and technical staff at woreda level are guided by the MOARD *Community Participatory Watershed Management Guidelines*. Thus the design of public works such as soil and water conservation and road works will have had standard environmental mitigating measures already incorporated into the design of the public works by the time they are screened by the ESMF procedures. Thus the screening procedure will generally be quite rapid.

377. Only in exceptional cases should it be necessary for a project to be reviewed at a higher level, in which case the Regional Environmental Protection Authority (EPA) will be the responsible authority for deciding whether an EIA is required.

378. The ESMF for Phase II is a modified version of the ESMF utilized in Phase I, supplemented by a Guide for Integrated Pest Management in Small-Scale Irrigation Projects, and the GOE Medical Waste Management Guide for Rural Health Clinics.

Safeguards Issues Arising in PSNP Phase I

379. In Phase I, the public works training encompassed both community-based watershed management and application of the ESMF – two complimentary procedures designed to jointly ensure the best outcome for the public works program in terms of its contribution to rural transformation and eventual graduation from poverty of the beneficiary communities.

²⁶ In keeping with Ethiopia's *Environmental Impact Assessment* proclamation, the term 'environment' in this context covers biophysical, social and cultural heritage impacts.

380. Given the novelty of the PSNP approach, and the potential humanitarian issues associated with any shortcomings in terms of the targeting and implementation of transfers, process monitoring of the public works program received limited attention in Phase I. Thus there was little data on the implementation of the watershed management planning system and the ESMF. Nonetheless, there are indications from the public works review executed in 2006 that while the extent of application of the watershed management planning process remains obscure, the use of the *Guidelines* for individual projects was quite widespread – though not always applied fully – but in most regions, implementation of the ESMF was not much in evidence.

381. The reasons for this are believed to include:

- The ESMF Implementation Procedure/Strategy developed by the FFSCB to ensure ESMF implementation may not have been fully distributed to the concerned parties;
- Unlike the MOARD *Guidelines*, the ESMF (or the ESMF Operational Summary actually distributed for use) did not have the appearance of a serious official document, and may have been overlooked;
- The woreda staff concerned may not have been specifically designated for the task of ESMF implementation;
- Not all regional Natural Resources and Land Administration Bureaus were systemically engaged in the PW program, and did not consider their offices to have a formal role in ensuring satisfactory implementation;
- Most of the regional EPAs did not send staff to the public works training and/or were not invited to do so;
- Having been designed as a late add-on to the watershed management training program, the ESMF training component was not taken so seriously by some of those concerned;
- The ESMF was not an official part of the PIM;
- Some of the regional EPAs were not aware that their office has a role in the implementation of the ESMF; and
- The PSNP M&E system did not include public works program process monitoring;

382. Under APL II, steps have been taken to address these shortcomings. ESMF implementation monitoring procedures have been reviewed, roles and responsibilities have been identified and re-designed as needed, and incorporated in a new ESMF Implementation Procedure. It will be an official PSNP document, and will be referred to in the PIM.

383. The Phase II Implementation procedure also includes provision for monitoring of ESMF implementation, the establishment of a permanent Public Works and Environment function in the FFSCB, and designation of Public Works and Environment focal persons in the regions, who will take responsibility for ensuring satisfactory implementation.

384. Staff of the Regional EPAs and the woreda Environmental (Natural Resources) focal persons will participate in the awareness-creation and training courses for the PSNP Public Works, which includes ESMF II training. This training will be provided by teams drawn from MOARD at Federal and Regional level, with technical assistance from the Natural Resources Management personnel of MOARD, the regional EPAs and agencies such as WFP

Annex 12: Project Preparation and Supervision
ETHIOPIA: Productive Safety Net APL II

	Planned	Actual
PCN review	08/08/2006	08/08/2006
Initial PID to PIC	08/25/2006	08/30/2006
Initial ISDS to PIC	08/24/2006	08/25/2006
Appraisal	10/13/2006	10/13/2006
Negotiations	11/15/2006	11/21-22/2006
Board Approval	01/09/2007	
Planned date of effectiveness	01/31/2007	
Planned date of mid-term review	09/30/2008	
Planned closing date	06/30/2010	

Key institutions responsible for preparation of the project:

- Federal Ministry of Finance and Economic Development, Government of Ethiopia
- Regional Bureaus of Finance and Economic Development, Government of Ethiopia
- Ministry of Agriculture and Rural Development, Government of Ethiopia
- Donor partners include: CIDA (Government of Canada), DCI (Government of Ireland), DFID (Government of the United Kingdom), EC (European Commission), USAID (United States Agency of International Development), and WFP (World Food Program)

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Trina Haque	Lead Economist, TTL	AFTH3
Harold Alderman	Lead HD Economist	AFTH3
William Wiseman	Economist	AFTH3
Marilou Bradley	Sr. Operations Officer	AFTH1
Carolyn Winter	Sr. Social Development. Spec.	AFTS2
Jonathan Pavluk	Sr. Counsel	LEGAf
Endashaw Tadesse	Sr. Operations Officer	AFTH3
Eshetu Yimer	Sr. Fin. Mgmt. Specialist	AFTFM
Rajat Narula	Sr. Finance Officer	LOAG2
Samuel Haile Selassie	Procurement Specialist	AFTPC
Francesco Sarno	Consultant, Procurement	AFTH3
Ian Campbell	Consultant, Env and Safeguards Specialist	AFTH3
Larissa Pelham	Consultant	AFTH3
Robert Geddes	Consultant, PW Engineer	AFTH3
Southsavy Nakhavanit	Program Assistant	AFTH3
Eleni Albejo	Team Assistant	AFC06

Bank funds expended to date on project preparation:

1. Bank resources: US\$ 75,000
2. Trust funds: US\$ 55,000
3. Total: US\$ 130,000

Estimated Approval and Supervision costs:

4. Remaining costs to approval: US\$ 25,000
5. Estimated annual supervision cost: US\$ 150,000

Annex 13: Documents in the Project File
ETHIOPIA: Productive Safety Net APL II

Government Documents

1. Sustainable Development and Poverty Reduction Program (SDPRP), March 2002
2. Mid-Term Review Report for the Productive Safety Net Program, Food Security Coordination Bureau, Ministry of Agriculture and Rural Development, June 2006.
3. Program Implementation Manual (PIM), July 2006
4. Environmental and Social Management Framework (ESMF); Federal Democratic Republic of Ethiopia Productive Safety Net Programme Phase II, October 2006
5. Lessons Learned and Way Forward Based on the Consultative Workshops on the PASDEP in 22 pilot Woredas in Ethiopia, September 2006
6. Sector Development Policy, November 28, 2006

Bank Documents

7. Minutes of PSNP Quality Enhancement Review, December 13, 2005
8. Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia, World Bank, May 1, 2006
9. Mid-Term Review Aide-Memoire of PSNP APL1, June 12, 2006
10. Project Concept Note, August 1, 2006
11. Minutes of Project Concept Review, August 2006
12. Pre-Appraisal Mission, PSNP APL II, Aide-Memoire, October 13-26, 2006
13. Statement of Mission Objectives, Pre-Appraisal Mission, October 2006
14. Minutes of the Regional Operations Committee Review, October 12, 2006

Studies and Assessments

15. Financial Management Capacity Assessment of the Ethiopia Productive Safety Net Program, December 2004
16. Public Works Review, May 2006
17. Ethiopia's PSNP: Trends in transfers within targeted households (Stephen Devereux, Rachel Sabates-Wheeler, Mulugeta Tefera and Hailemichael Taye), August 2006
18. Targeting Ethiopia's PSNP (Kay Sharp, Taylor Brown and Amdissa Teshome), August 2006
19. PSNP Policy, Program and Institutional Linkages, Final Report (Rachel Slater, Steve Ashley, Mulugeta Tefera, Mengistu Buta and Delegne Esubalew), September 2006

Annex 14: Statement of Loans and Credits **ETHIOPIA: Productive Safety Net APL II**

(as of December 4, 2006)

Closed Projects									
IBRD/IDA (US\$ Millions)									
Total Disbursed (Active)			958 48	Total Disbursed (Active + Closed)			4,275 82		
of which has been repaid			0 00	of which has been repaid			493 38		
Total Disbursed (Closed)			3,317 34	Total Undisbursed (Active)			1,140 70		
of which has been repaid			493 38	Total Undisbursed (Closed)			0 00		
				Total Undisbursed (Active + Closed)			1,140 70		
Active Projects									
Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ m			Expected and Actual Disbursements ^{1/}	
		Development Objectives	Supervision Rating Implementation Progress		IDA	GEF	Canceled	IDA Undisb. ^{2/}	Orig. Frm Rev'd
P079275	ET- Cap Building for Agric Serv (FY06)	S	S	2006	54 0			55 3	0 0
P000733	ET-Agr Research & Training SIL (FY98)	S	S	1998	60 0			2 8	1 5
P057770	ET-Cultural Heritage LIL (FY02)	S	S	2002	5 0			2 6	1 6
P050938	ET-Dec Serv Del CB (FY03)	S	S	2003	26 2			17 6	13 3
P073196	ET-Demob & Reinteg ERL (FY01)	S	S	2001	170 6			14 4	7 6
P097271	ET-Electricity Access (Rural) Expansion	S	S	2006	133 4			138 6	
P081773	ET-Emerg Drought Recovery ERL (FY03)	S	S	2003	60 0			0 1	-2 4
P067084	ET-Emerg Recov & Rehab ERL (FY01)	S	S	2001	230 0			8 6	-11 2
P049395	ET-Energy Access SIL (FY03)	MS	S	2003	132 7			138 4	108 3
P094704	ET-Financial Sector Cap Bldg Project	S	S	2006	15 0			15 2	
P050383	ET-Food Security SIL (FY02)	S	S	2002	85 0			65 7	17 1
P077380	ET-GEF Energy Access Prj (FY06)	MS	S	2006		5 2			
P035147	ET-GEF Med Plants Cnsv & Sust Use (FY01)	S	S	2001		1 9	1 0		
P078458	ET-ICT Assisted Dev SIM (FY05)	S	S	2005	25 0			22 8	9 1
P069886	ET-MAP (FY01)	S	S	2001	59 7			0 6	-3 9
P075915	ET-Pastoral Community Dev APL (FY03)	S	S	2003	30 0			6 1	-9 2
P078692	ET-Post Secondary Education SIL (FY05)	U	U	2005	40 0			36 1	17 9
P050272	ET-Priv Sec Dev CB (FY05)	MS	MS	2005	24 0			21 9	2 3
P087707	ET-Productive Safety Nets APL1 (FY05)	S	S	2005	70 0			0 6	-0 5
P074015	ET-Protection of Basic Services (FY06)	S	S	2006	215 0			133 5	126 1
P074020	ET-Pub Sec Cap Bldg Prj (FY04)	S	S	2004	100 0			63 9	12 6
P044613	ET-RSDP APL1 (FY03)	MS	MS	2003	126 8			89 6	31 9
P082998	ET-Road Sec Dev Prgm Ph 2 Supl 2 (FY05)	S	MS	2005	248 2			219 3	22 9
P076735	ET-Water Sply & Sanitation SIL (FY04)	S	S	2004	100 0			87 0	18 0
Total					2010 6	7 1	1 0	1140 7	364 1
									-24 4

Legend: HS = Highly satisfactory; S = Satisfactory; HU = Highly unsatisfactory; U= Unsatisfactory
Notes: (a) Undisbursed balance may exceed IDA US\$ denominated commitment due to SDR appreciation since commitment; (b) Intended disbursements to date minus actual disbursements to date as projected at appraisal

Annex 15: Ethiopia at a Glance

ETHIOPIA: Productive Safety Net APL II

Ethiopia at a glance

12/6/06

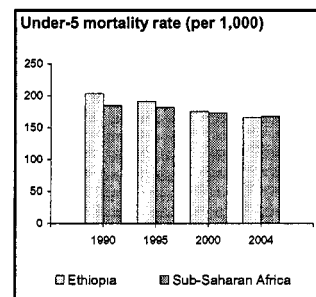
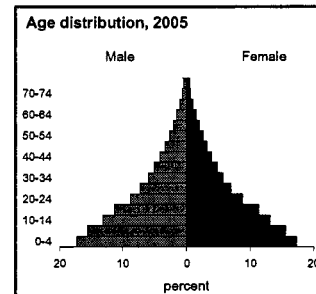
Key Development Indicators

(2005)

	Ethiopia	Sub-Saharan Africa	Low income
Population, mid-year (millions)	71.3	741	2,353
Surface area (thousand sq. km)	1,104	24,265	29,265
Population growth (%)	1.8	2.1	1.8
Urban population (% of total population)	16	37	31
GNI (Atlas method, US\$ billions)	11.1	552	1,364
GNI per capita (Atlas method, US\$)	160	745	580
GNI per capita (PPP, international \$)	1,000	1,981	2,486
GDP growth (%)	8.7	5.3	7.5
GDP per capita growth (%)	6.8	3.1	5.6

(most recent estimate, 2000–2005)

Poverty headcount ratio at \$1 a day (PPP, %)	23	44	..
Poverty headcount ratio at \$2 a day (PPP, %)	78	75	..
Life expectancy at birth (years)	42	46	59
Infant mortality (per 1,000 live births)	97	100	80
Child malnutrition (% of children under 5)	47	29	39
Adult literacy, male (% of ages 15 and older)	..	..	73
Adult literacy, female (% of ages 15 and older)	..	..	50
Gross primary enrollment, male (% of age group)	86 ^a	99	110
Gross primary enrollment, female (% of age group)	70 ^a	87	99
Access to an improved water source (% of population)	22	56	75
Access to improved sanitation facilities (% of population)	13	37	38

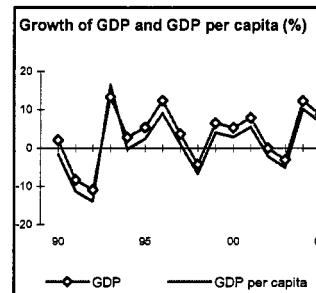


Net Aid Flows

	1980	1990	2000	2005 ^b
(US\$ millions)				
Net ODA and official aid	212	1,016	693	1,823
Top 3 donors (in 2004):				
United States	19	50	130	402
United Kingdom	4	35	11	147
Germany	15	47	39	126
Aid (% of GNI)	3.4	8.5	8.9	18.9
Aid per capita (US\$)	6	20	11	26

Long-Term Economic Trends

Consumer prices (annual % change)	4.5	5.2	0.7	11.6
GDP implicit deflator (annual % change)	4.4	3.9	6.0	6.0
Exchange rate (annual average, local per US\$)	2.1	2.1	8.1	8.7
Terms of trade index (2000 = 100)	131	151	100	77



Population, mid-year (millions)	37.7	51.2	64.3	71.3
GDP (US\$ millions)	7,269	12,083	7,845	11,174
	(% of GDP)			
Agriculture	58.9	51.9	47.7	47.7
Industry	11.9	11.8	12.4	13.3
Manufacturing	6.0	5.1	5.7	5.1
Services	29.2	36.3	39.9	39.0
Household final consumption expenditure	80.0	77.2	73.1	82.2
General gov't final consumption expenditure	9.8	13.2	18.9	14.2
Gross capital formation	14.5	12.9	20.5	26.3
Exports of goods and services	7.6	5.6	12.5	16.4
Imports of goods and services	11.9	8.8	25.0	39.1
Gross savings	10.8	11.9	16.3	17.2

1980–90 1990–2000 2000–05
(average annual growth %)

3.1	2.3	2.1
2.0	3.5	4.2
0.6	2.2	3.1
3.4	4.0	5.8
3.1	3.8	2.4
3.5	4.5	3.9
1.0	2.3	4.8
4.0	9.6	-0.1
4.9	5.9	6.6
3.2	7.1	15.0
3.2	5.8	11.0
6.4	10.1	5.1

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. .. indicates data are not available.
a. National sources. b. Aid data are for 2004.

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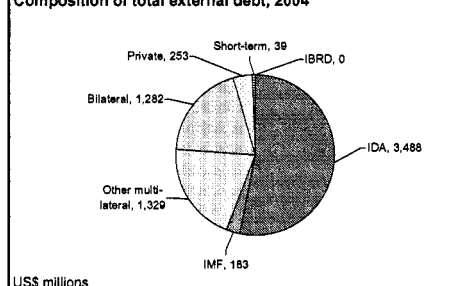
Balance of Payments and Trade	2000	2005
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	486	818
Total merchandise imports (cif)	1,611	3,633
Net trade in goods and services	-976	-2,538
Workers' remittances and compensation of employees (receipts)	53	134
Current account balance	-335	-1,013
as a % of GDP	-4.3	-9.1
Reserves, including gold	349	1,555

Central Government Finance*

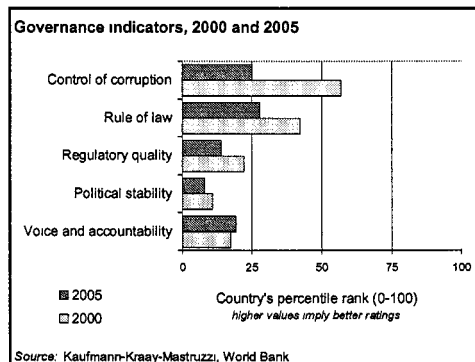
<i>(% of GDP)</i>		
Revenue	14.6	16.0
Tax revenue	9.9	12.7
Expense	27.1	25.6
Cash surplus/deficit	-10.6	-4.9
Highest marginal tax rate (%)		
Individual	..	35
Corporate	..	30

External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	5,483	6,574
Total debt service	138	97
HIPC and MDRI debt relief (expected; flow)	3,275	..
Total debt (% of GDP)	69.9	67.5
Total debt service (% of exports)	13.1	5.9
Foreign direct investment (net inflows)	135	545
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2004

Private Sector Development	2000	2005
Time required to start a business (days)	—	32
Cost to start a business (% of GNI per capita)	—	65.1
Time required to register property (days)	—	56
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Tax rates	73.6	..
Tax administration	60.3	..
Stock market capitalization (% of GDP)	..	..
Bank branches (per 100,000 people)	..	0.4



Technology and Infrastructure	2000	2004
Paved roads (% of total)	12.0	12.9
Fixed line and mobile phone subscribers (per 1,000 people)	4	8
High technology exports (% of manufactured exports)	0.1	0.2

Environment

Agricultural land (% of land area)	31	32
Forest area (% of land area, 2000 and 2005)	13.7	13.0
Nationally protected areas (% of land area)	..	16.9
Freshwater resources per capita (cu. meters)	..	1,744
Freshwater withdrawal (% of internal resources)	..	4.6
CO2 emissions per capita (mt)	0.09	0.09
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	2.7	2.6
Energy use per capita (kg of oil equivalent)	291	299

World Bank Group portfolio

<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	1,779	3,359
Disbursements	137	162
Total debt service	34	72
IFC (fiscal year)		
Total disbursed and outstanding portfolio	0	0
of which IFC own account	0	0
Disbursements for IFC own account	0	0
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	—	—
New guarantees	—	—

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates.

.. indicates data are not available. — indicates observation is not applicable.

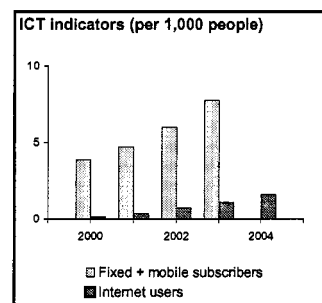
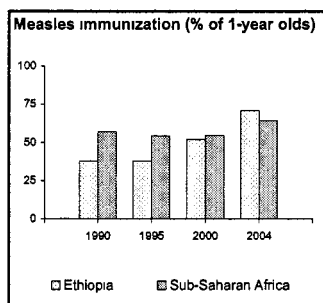
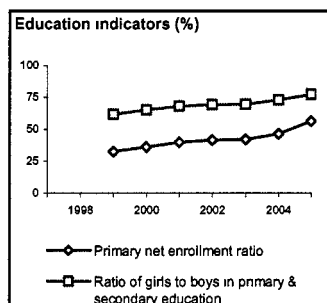
* represents Federal and Regional Governments'.

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With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

Ethiopia				
Goal 1: halve the rates for \$1 a day poverty and malnutrition	1990	1995	2000	2004
Poverty headcount ratio at \$1 a day (PPP, % of population)	..	31.3	23.0	..
Poverty headcount ratio at national poverty line (% of population)	..	45.5	44.2	..
Share of income or consumption to the poorest quintile (%)	..	..	9.1	..
Prevalence of malnutrition (% of children under 5)	48	..	47	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	22	..	36	56
Primary completion rate (% of relevant age group)	26	18	37	55
Secondary school enrollment (gross, %)	13	..	17	31
Youth literacy rate (% of people ages 15-24)	43	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	68	..	65	77
Women employed in the nonagricultural sector (% of nonagricultural employment)	40	..	..	..
Proportion of seats held by women in national parliament (%)	..	2	2	21
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	204	192	176	166
Infant mortality rate (per 1,000 live births)	131	123	116	110
Measles immunization (proportion of one-year olds immunized, %)	38	38	52	71
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	850	..
Births attended by skilled health staff (% of total)	..	..	6	9
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	4	..	8	15
Incidence of tuberculosis (per 100,000 people)	128	..	..	353
Tuberculosis cases detected under DOTS (%)	..	15	33	36
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	23	..	..	22
Access to improved sanitation facilities (% of population)	3	..	..	13
Forest area (% of total land area)	..	..	13.7	13.0
Nationally protected areas (% of total land area)	..	..	..	16.9
CO2 emissions (metric tons per capita)	0.1	0.0	0.1	0.1
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	2.6	2.4	2.7	2.6
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	2	3	4	8
Internet users (per 1,000 people)	0	0	0	2
Personal computers (per 1,000 people)	..	..	1	3
Youth unemployment (% of total labor force ages 15-24)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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