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Report No: {PP1918}

# PROJECT PAPER

ON A

PROPOSED GRANT
FROM THE STRATEGIC CLIMATE FUND

IN THE AMOUNT OF US$1.50 MILLION

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

# MULTI-SECTOR INVESTMENT PLANNING FOR CLIMATE RESILIENCE PROJECT

September 22, 2016

CURRENCY EQUIVALENTS

(Exchange Rate Effective – September 22, 2016)

| | | |
|---|---|---|
| Currency Unit | = | Ethiopian Birr (ETB) |
| ETB 22.21 | = | 1 US$ |
| 1 ETB | = | 0.045 US$ |

FISCAL YEAR
July 8 – July 7

ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AfDB | African Development Bank |
| AGP | Agricultural Growth Program |
| CBA | Cost Benefit Analysis |
| CIF | Climate Investment Funds |
| CPF | Country Partnership Framework |
| CRGE | Climate Resilient Green Economy |
| CSRP | Civil Service Reform Program |
| DA | Designated Account |
| DP | Development Partner |
| EMCP | Expenditure Management and Control sub-program |
| ESSF | Environmental and Social Safeguards Framework |
| FM | Financial Management |
| FPPA | Federal Public Property and Administration Agency |
| FPD | Finance and Procurement Directorate |
| GCF | Green Climate Fund |
| GDP | Gross Domestic Product |
| GIS | Geographic Information System |
| GoE | Government of Ethiopia |
| GPN | General Procurement Notice |
| GRM | Grievance Redress Mechanism |
| GRS | Grievance Redress Service |
| GTP | Growth and Transformation Plan |
| IBEX | Integrated Budget and Expenditure System (IBEX) |
| IBRD | International Bank of Reconstruction and Development |
| ICB | International Competitive Bidding |
| IDA | International Development Association |
| IFR | Interim Financial Report |
| M&E | Monitoring and Evaluation |
| MEFCC | Ministry of Environment, Forest and Climate Change |
| MIS | Management Information System |
| MoANR | Ministry of Agriculture and Natural Resources |
| MoFEC | Ministry of Finance and Economic Cooperation |

| | |
|---|---|
| MoLF | Ministry of Livestock and Fisheries |
| MoWIE | Ministry of Water, Irrigation and Electricity |
| MSIP | Multi-Sector Investment Plan |
| NBE | National Bank of Ethiopia |
| NCB | National Competitive Bidding |
| NGO | Non-Governmental Organization |
| ODI | Overseas Development Institute |
| OP | Operational Policy |
| PDO | Project Development Objective |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Finance Management |
| PPCR | Pilot Program for Climate Resilience |
| PPPs | Public Private Partnerships |
| PSNP | Productive Safety Net Program |
| REDD | Reducing Emissions from Deforestation and Forest Degradation |
| RFP | Request for Proposal |
| RRT | Rapid Response Team |
| SNNP | Southern Nations, Nationalities, and People |
| SRFP | Standard Requests for Proposals |
| SBD | Standard Bidding Document |
| SCD | Systematic Country Diagnostic |
| SCF | Strategic Climate Fund (one of the CIFs) |
| SLMP | Sustainable Land Management Program |
| SLMP-2 | Sustainable Land Management Project Phase 2 |
| TA | Technical Assistance |
| ToR | Terms of reference |
| QCBS | Quality and Cost Based Selection |
| UNDB | United Nations Development Business |
| UNFCCC | United Nations Framework Convention on Climate Change |
| YR | (Project) Year |

| | |
|---|---|
| Regional Vice President: | Makhtar Diop |
| Country Director: | Carolyn Turk |
| Acting Senior Global Practice Director: | Julia Bucknall |
| Practice Manager: | Magda Lovei |
| Task Team Leader: | Stephen Danyo / Timothy Brown |

*Ethiopia*

***Multi-sector Investment Planning for Climate Resilience (P158987)***

**TABLE OF CONTENTS**

**Page**

**APPRAISAL DATA SHEET**

*Ethiopia*

*Multi-sector Investment Planning for Climate Resilience (P158987)*

**PROJECT PAPER**

*AFRICA*

*0000009270*

Report No.: PP1918

## Basic Information

| | | | |
|---|---|---|---|
| Project ID<br>P158987 | EA Category<br>C - Not Required | Team Leader(s)<br>Stephen Danyo, Timothy H. Brown | |
| Lending Instrument<br>Investment Project Financing | Fragile and/or Capacity Constraints [ ] | | |
| | Financial Intermediaries [ ] | | |
| | Series of Projects [ ] | | |
| Project Implementation Start Date<br>31-Oct-2016 | Project Implementation End Date<br>31-May-2018 | | |
| Expected Effectiveness Date<br>30-Nov-2016 | Expected Closing Date<br>31-May-2018 | | |
| Joint IFC<br>No | | | |
| Practice Manager/Manager | Senior Global Practice Director | Country Director | Regional Vice President |
| Magda Lovei | Julia Bucknall | Carolyn Turk | Makhtar Diop |

## Approval Authority

| |
|---|
| Approval Authority<br>CD Decision |

| | | | |
|---|---|---|---|
| Borrower: Ministry of Finance and Economic Cooperation | | | |
| Responsible Agency: Ministry of Finance and Economic Cooperation | | | |
| Contact: | Admasu Nebebe | Title: | Director, UN Agencies and Regional Economic Cooperation |
| Telephone No.: | 251-11-1116751 | Email: | |

## Project Financing Data(in USD Million)

| | | | |
|---|---|---|---|
| Total Project Cost: | 1.50 | Total Bank Financing: | 0.00 |

| | |
|---|---|
| Financing Gap: | 0.00 |

| **Financing Source** | **Amount** |
|---|---|
| Climate Investment Funds | 1.50 |
| Total | 1.50 |

**Expected Disbursements (in USD Million)**

| Fiscal Year | 2017 | 2018 | 0000 | 0000 | 0000 | 0000 | 0000 | 0000 | 0000 | 0000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Annual | 0.90 | 0.60 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative | 0.90 | 1.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

## Institutional Data

**Practice Area (Lead)**

Environment & Natural Resources

**Contributing Practice Areas**

Agriculture, Climate Change

**Proposed Development Objective(s)**

To support Ethiopia's effort to develop a programmatic multi-sector investment plan for climate resilience in key sectors, including agriculture and forestry.

**Components**

| **Component Name** | **Cost (USD Millions)** |
|---|---|
| Analytical Support | 0.83 |
| Institutional Support for MSIP and CRGE Implementation | 0.67 |

## Compliance

**Policy**

| | | |
|---|---|---|
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ] | No [ X ] |
| Does the project require any waivers of Bank policies? | Yes [ ] | No [ X ] |
| Have these been approved by Bank management? | Yes [ ] | No [ ] |
| Does the project meet the Regional criteria for readiness for implementation? | Yes [ X ] | No [ ] |

| **Safeguard Policies Triggered by the Project** | **Yes** | **No** |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | | **X** |
| Natural Habitats OP/BP 4.04 | | **X** |
| Forests OP/BP 4.36 | | **X** |

| | | |
|---|---|---|
| Pest Management OP 4.09 | | **X** |
| Physical Cultural Resources OP/BP 4.11 | | **X** |
| Indigenous Peoples OP/BP 4.10 | | **X** |
| Involuntary Resettlement OP/BP 4.12 | | **X** |
| Safety of Dams OP/BP 4.37 | | **X** |
| Projects on International Waterways OP/BP 7.50 | | **X** |
| Projects in Disputed Areas OP/BP 7.60 | | **X** |

**Legal Covenants**

| **Name** | **Recurrent** | **Due Date** | **Frequency** |
|---|---|---|---|
| | | | |

**Description of Covenant**

**Conditions**

| **Source Of Fund** | **Name** | **Type** |
|---|---|---|
| | | |

**Description of Condition**

## Team Composition

**Bank Staff**

| **Name** | **Role** | **Title** | **Specialization** | **Unit** |
|---|---|---|---|---|
| Stephen Danyo | Team Leader (ADM Responsible) | Senior Natural Resources Management Specialist | Natural resources | GEN01 |
| Timothy H. Brown | Team Leader | Senior Natural Resources Management Specialist | Environmental economics | GEN01 |
| Tesfaye Ayele | Procurement Specialist (ADM Responsible) | Senior Procurement Specialist | Procurement | GGO01 |
| Meron Tadesse Techane | Financial Management Specialist (ADM Responsible) | Senior Financial Management Specialist | Financial management | GGO25 |
| Ahmed Alkadir Mohammed | Team Member | Consultant | Private Sector Development Operations | GEN01 |

| | | | | |
|---|---|---|---|---|
| Asferachew Abate Abebe | Safeguards | Senior Environmental Specialist | Environmental planning and risk management | GEN01 |
| Aurore Simbananiye | Team Member | Program Assistant | Assistant | GEN01 |
| Chukwudi H. Okafor | Safeguards | Senior Social Development Specialist | Social development and risk management | GSU07 |
| Dereje Agonafir Habtewold | Environmental | Environmental Specialist | Environmental planning | GEN01 |
| Hailu Tefera Ayele | Team Member | Consultant | Forest operations | GEN01 |
| Million Alemayehu Gizaw | Team Member | Senior Natural Resources Management Specialist | Soil and water conservation | GEN01 |
| Mistre Hailemariam Mekuria | Team Member | Team Assistant | Assistance | AFCE3 |
| Pablo Cesar Benitez Ponce | Team Member | Senior Economist | Climate policy | GCCPT |
| Raffaello Cervigni | Team Member | Lead Environmental Economist | Economics | GEN07 |
| Shimeles Sima Erketa | Team Member | Consultant | Forest | GEN01 |
| Susan Tambi Matambo | Team Member | Environmental Specialist | Climate Investment planning | GCCPT |
| Tesfahiwot Dillnessa | Team Member | Program Assistant | Assistance | AFCE3 |
| Yasmina Oodally | Team Member | Consultant | Operations, soils | GEN01 |

**Extended Team**

| **Name** | **Title** | **Office Phone** | **Location** |
|---|---|---|---|
| | | | |

**Locations**

| **Country** | **First Administrative Division** | **Location** | **Planned** | **Actual** | **Comments** |
|---|---|---|---|---|---|
| Ethiopia | Addis Ababa | Addis Ababa | | X | Technical activities with national scope |

# I. STRATEGIC CONTEXT

## A. Country Context

1. **Ethiopia has achieved substantial progress in economic, social and human development over the past decade, with rapid and inclusive economic growth averaging 10.9 percent per year over the previous decade.** At this rate, the economy is doubling every seven years in real terms, accompanied by significant reduction in extreme poverty rates from 55 percent in 2000 (one of the highest levels recorded internationally) to 33 percent in 2011. Low levels of inequality have largely been maintained. Non-monetary dimensions of well-being show strong improvement and, with a few exceptions, Ethiopia attained the Millennium Development Goals. Life expectancy, for instance, increased by one year every year over this period, from 52 to 63 years. Meanwhile, the 2014 population of 95 million people will grow to at least 120 million by 2030.[1]

2. **Ethiopia is a large, land-locked and diverse country vulnerable to climate variability and change.** It is the 11th poorest country in the world in terms of income per capita and home to Sub-Saharan Africa's second largest population, the vast majority of whom are rural, dependent on the natural resource base for livelihoods and as buffers against floods and droughts. Most productive sectors depend on functional landscapes that are vulnerable to considerable climate risk now and in the near future. For example, the on-going drought has increased the rural poverty rate by 3.3 percent, but has more than doubled the proportion of people living in poverty in zones that have been particularly affected. The drought is compounded by forest loss and land degradation that undermine climate resilience.[2]

## B. Sectoral and Institutional Context

3. **In response to these risks, Ethiopia's Ministry of Finance and Economic Cooperation (MoFEC) developed the Climate Resilient Green Economy (CRGE) Strategy and the Second Growth and Transformation Plan (GTP-2),** which incorporates many of the elements of the CRGE Strategy. Together, these national development documents aim to bring Ethiopia to middle-income status by 2025, with a reliance on resilient "green growth" pathways. Both strategies emphasize agriculture, forest, and improved land use, recognizing that unless steps are taken to build resilience, climate variability and change could reduce GDP growth by up to 10 percent per year, with agricultural growth at particular risk. The worst-case scenario is that in 25 years, Ethiopia could face the risk of achieving only half of its total GDP potential.[3] Current and future challenges are summarized below.

4. **Climate impacts.** Ethiopia's biophysical characteristics are highly varied, with wet highlands containing 80 percent of the population and all of the country's broader water towers,[4]

[1] World Bank. 2016. *FDRE Priorities for Ending Extreme Poverty and Promoting Shared Prosperity: Systematic Country Diagnostic.* Washington D.C., USA.
[2] Ibid.
[3] FDRE. 2015. *Climate Resilient Strategy for Agriculture and Forestry*. Addis Ababa, Ethiopia.
[4] Much of Ethiopia's rainfall endowment flows through transboundary rivers to neighboring countries. For example, the forested Bale Mountains in Oromia Regional State provide most of the surface water for Ethiopia's eastern dry lands in Oromia and the Somali region as well as the country of Somalia. Ethiopia's highlands are also a source of the Nile.

to highly vulnerable arid lowlands featuring mobile pastoralism and important trade routes. The extremely diverse landscapes reflect the variation in climate, soil type and production systems across the country. At the national level, temperatures have increased by approximately one degree Celsius since the 1960s. This increase has been felt across all regions. Rainfall across the country is subject to high variability between years, seasons and regions. Yearly variation around mean rainfall levels of 25 percent is normal and can increase to 50 percent in some regions. Despite this complexity, there is evidence of a 20 percent decrease in rainfall in the south central region of the country. Weather variability leads to extreme weather events and hazards. Extreme weather events are common, especially droughts and floods. The incidence of droughts and floods may have increased in the last ten years relative to the decade before.[5]

5. **Floods and droughts have resulted in food insecurity and deepen extreme poverty**. The economic impact depends on the extent of the variability and extreme events but droughts alone can reduce total GDP by one to four percent. Climate models project that current rainfall variability will continue (-25 percent to +30 percent by the 2050s), along with potential changes in the intensity and frequency of extreme events.[6] The driest scenarios project a 20 percent increase in Ethiopia's dry lands by mid-century, and this would bring more people into environments where the range of resilience options is limited; some zones would become incapable of sustaining livestock production and intensive agriculture.[7]

6. **Land degradation and forest loss increase water stress.** Soil erosion has been estimated to reduce agricultural GDP from two to three percent (around one percent of total GDP). Soil erosion is a key hazard for agriculture with up to six percent of the country at risk. Vulnerability to water stress due to insufficient and increasingly variable rainfall and poor natural resource management is a binding constraint to increasing income from natural resource based sectors such as agriculture, livestock, and forest. Ethiopian farmers rely almost entirely on rain-fed agriculture and seasonal rainfall is very volatile in large parts of the country. Ethiopia experienced more droughts than its structural peers implying that rain-fed agriculture and pastoralism are relatively risky businesses. Climate change is increasing this volatility, negatively affecting rural incomes and poverty. Volatility also discourages rural land users to invest in profitable enterprises and technologies. While the country has made great strides in landscape restoration that has rehabilitated watershed function via structural and vegetative land management actions, there remains a large gap to be filled by investment in resilient landscapes.

7. **Ethiopia's MoFEC requested the World Bank to lead on developing a multi-sector investment plan (MSIP) to scale up achievement of goals related to resilient low carbon green growth.** The Bank has been providing initial support through on-going advisory services to the country's CRGE Facility at MoFEC. In 2015, MoFEC requested funds from the Climate Investment Funds' (CIF) Pilot Program for Climate Resilience (PPCR) to support investment planning for forest and agriculture – two sectors where the Bank is currently providing and convening large-scale financing and is taking measures to boost sustainability and resilience. In addition to the Bank's large-scale financing, there is significant public expenditure as well as financing from other development partners (DPs). A comprehensive approach is therefore required

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[5] FDRE. 2015. *Climate Resilient Strategy for Agriculture and Forestry*. Addis Ababa, Ethiopia.

[6] Ibid.

[7] World Bank. 2016. *Confronting Drought in Africa's Drylands: Opportunities for Enhancing Resilience.* Washington D.C., USA.

to coordinate investment planning across sectors and stakeholders in order to boost efficiency and effectiveness. As a result, the World Bank, African Development Bank (AfDB), International Finance Corporation (IFC), and other partners have been engaging with MoFEC and four line ministries and other Ethiopian institutions to prepare the MSIP for climate resilience in key sectors, including agriculture and forestry. The MSIP preparation process is Government-owned, led by MoFEC along with the Ministry of Agriculture and Natural Resources (MoANR), the Ministry of Environment and Climate Change (MEFCC), the Ministry of Water, Irrigation and Electricity (MoWIE), and the Ministry of Livestock and Fisheries (MoLF).

8. The Multi-sector Investment Planning for Climate Resilience Project will help convene institutions, information, investment and incentives to scale-up financing for climate action on resilient landscapes, supported by a variety of sources and stakeholders. This includes the agriculture, forest, livestock, fisheries, water, and power sectors. The Project will seek to capacitate the Ethiopian government institutions and experts engaged in the MSIP process by providing opportunities to identify, prioritize and address some of the key challenges and barriers for greater resilience. Ethiopia's policy makers will benefit from analytical inputs for sector planning, access to global best practice in climate resilience planning and finance, as well as a stronger position in convening and leveraging international climate finance for enhancing existing investments and mobilizing new and additional financing.

## C. Higher Level Objectives to which the Project Contributes

9. **Contribution to national plans and strategies**. The Project will contribute to key national strategies, including the GTP-2 (2015-2020); CRGE Strategy (2011-2030); Climate Resilience Strategy for Agriculture and Forestry (2015-2030); and other sector strategies for forest, agriculture, sustainable land management, livestock, energy, water, and disaster risk management. It will facilitate Ethiopia's progress towards its climate resilience objectives and help mobilize both new and additional finance from multiple sources to implement priority investments at scale that can reduce vulnerability to climate risk. It will also help reduce transaction costs to Ethiopia and her partners from overlaps and duplications.

10. **Relationship to the Bank's corporate goals, Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF)**. The objective of the Project aligns closely to the Bank's corporate goals of ending extreme poverty and boosting shared prosperity by 2030, the SCD, the emerging FY17–20 CPF for Ethiopia, the new Forest Action Plan, and Africa Climate Business Plan launched at UN Climate Change Conference in Paris in December 2015. The rationale for convening resources programmatically for resilient landscapes in Ethiopia is to harness the potential of natural resource-based sectors to help reduce poverty equitably. The Project will therefore contribute to the Bank's goals and the CPF objective of fostering economic growth and improved governance while reducing vulnerability.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. Proposed Development Objective(s)

11. The PDO is to support Ethiopia's effort to develop a programmatic multi-sector investment plan for climate resilience in key sectors, including agriculture and forestry.

12. In line with MoFEC's request to the CIF, the Project will focus on the forest and agriculture sectors (including livestock), while taking into account relevant activities on water resources, irrigation, and energy, in the context of resilient landscapes.

### B. Project Beneficiaries

13. The Project will directly benefit five currently participating ministries, namely, MoFEC, MEFCC, MoANR, MoLF, and MoWIE, which includes their respective regional bureaus and experts engaged in the MSIP process. The number of direct beneficiaries is at least 280 people (where ten percent are female), mostly government officials.

### C. PDO-Level Results Indicators

14. The PDO indicators for the Project will be as follows:

(a) Multi-sector investment plan prepared (Y/N).
(b) Government institutions provided with capacity building support to improve climate resilience (number).
(c) Direct project beneficiaries (number), of which female (percentage).

## III. PROJECT DESCRIPTION

15. The Project will be financed by an 18-month small grant for MoFEC and its partner ministries (MoANR, MEFCC, MoLF, and MoWIE) to support the development of a strategic, inclusive programmatic multi-sector investment plan for climate resilience in key sectors, including agriculture and forestry. The Project will complement on-going Bank-financed investment operations and advisory services supporting the same ministries and counterparts on advancing toward CRGE objectives. The Project will be an extension of this work, bringing greater visibility, accountability, credibility, inclusivity and coordination to the existing process, enhancing the potential of the sectors involved to deliver transformational impact and mobilize new and additional financing.

16. The Project's objective will be accomplished through analysis of key development plans, policies, strategies, and existing or planned large-scale investment operations; targeting and leveraging financing opportunities, and broad consultation with key stakeholders and partners. This process will also examine the potential, merits and mechanisms for Ethiopia to access, combine and leverage climate finance opportunities to support a long term series of transformational investments, including potential CIF and other climate financing, greater use of International Development Association (IDA) funds and other multi- or bi-lateral funds,

performance-based financing, as well as private financing in the form of Public Private Partnerships (PPPs) or other modes.

17. The MSIP supported by the Project will be expected to consist of a pipeline of large scale, programmatic investments that serve to further the aims of the GTP-2, the CRGE Strategy and other relevant national strategies and policies. The MSIP will be informed by: (i) key analytical inputs for sector planning, (ii) increased awareness and support of stakeholders and DPs, and (iii) a plan of action for leveraging and channeling international climate financing and "conventional" financing. The MSIP will build on and incorporate: (i) all major FDRE strategies [GTP-2, CRGE Strategy, Forest/Agriculture Climate Resilience Strategy, Agriculture Sector Policy and Investment Framework, Sustainable Land Management Investment Framework, Reducing Emissions from Deforestation and Forest Degradation (REDD+) Strategy], (ii) investment planning processes or opportunities [such as IDA, Green Climate Fund (GCF), CIFs, etc.], and (iii) existing large-scale operations (such as the large-scale Bank-financed Sustainable Land Management Program, Agricultural Growth Program, Productive Safety Nets Program, and the emerging Oromia Forested Landscape Program), while also incorporating lessons from other projects such as the first generation of small projects funded by the CRGE Facility. As such, the MSIP process will build credibility for scaled up financing and action by centering on an inclusive and consultative process with numerous DPs and other stakeholders.

## A. Project Components

18. The Project will have two components: (1) Analytical support, and (2) Institutional support for MSIP and CRGE implementation. These funds will be channeled to the GoE as a Recipient Executed grant. Technical consultants recruited under "Activity 2.1: Rapid Response Team (RRT)" will be a resource that contributes to the delivery of both components and adds value to the quality and delivery of key MSIP activities and the broader CRGE Strategy.

### Component 1. Analytical Support (US$0.83 million)

19. The component will finance the preparation, and dissemination of key analytics and facilitate dialogues around these and other existing analytics and information related to climate resilience, as well as training and capacity building activities. The activities under this component are further detailed in Annex 2.

### Component 2. Institutional Support for MSIP and CRGE Implementation (US$0.67 million)

20. The component will finance a RRT to engage in technical activities and work with sectoral ministries, resource mobilization outreach, and portfolio tracking system management. This will include the costs of consultants, workshops, travel, goods, and services, as well as operational costs associated with management, administration, auditing and reporting. The activities under this component are further detailed in Annex 2.

## B. Project Cost and Financing

**Table 1. Project Costs by Component (US$, million)**

| **Project Components** | **Project cost (US$, million)** | **Grant Financing (US$, million)** | **Percentage Financing (%)** |
|---|---|---|---|
| **Component 1. Analytical Support** | | | |
| 1.1 Cost benefit analyses (CBA) of key climate change interventions | 0.14 | 0.14 | 100% |
| 1.2 Climate policy and legal implementation gap analysis | 0.10 | 0.10 | 100% |
| 1.3 Assessment of cross-sector trade-offs and opportunities | 0.15 | 0.15 | 100% |
| 1.4 Climate Vulnerability Assessment of Households and Development of Climate Change Tracking Tool | 0.10 | 0.10 | 100% |
| 1.5 Earth Observation Support | 0.10 | 0.10 | 100% |
| 1.6 Climate Risk Insurance Options Study | 0.10 | 0.10 | 100% |
| 1.7 Capacity Building/Training | 0.14 | 0.14 | 100% |
| **Subtotal** | **0.83** | **0.83** | **100%** |
| **Component 2: Institutional Support for MSIP and CRGE Implementation** | | | |
| 2.1 Rapid Response Project Support Team | 0.36 | 0.36 | 100% |
| 2.2 Resource Mobilization Outreach | 0.10 | 0.10 | 100% |
| 2.3 Portfolio Tracking System | 0.10 | 0.10 | 100% |
| 2.4 Project Management | 0.11 | 0.11 | 100% |
| **Subtotal** | **0.67** | **0.67** | **100%** |
| ***Total Cost*** | ***1.5*** | ***1.5*** | ***100%*** |

# IV. IMPLEMENTATION

## A. Institutional and Implementation Arrangements

21. Project implementation is based on the GoE's current implementation structures for the CRGE Facility, with core teams of government officials and support staff already in place to act. The principle is to help the Government put in place a strong multi-sector approach in line with GTP-2 clusters that identify groupings of sectors to deliver durable development outcomes.

22. MoFEC, through its Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility, will lead on coordinating and directing the investment planning process. MoFEC is the lead implementing agency and main liaison to the CIF and GCF. MoFEC prepared and delivered the Expression of Interest to the CIF Secretariat, which forms the basis for the design of this grant support. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility is responsible for: (i) leading the strategic MSIP process; (ii) coordinating the participation of the key line ministries; (iii) ensuring inclusive engagement of DPs and other concerned stakeholders; (iv) recruiting the RRT (see Component 2) with specialized technical and sectoral skills; (v) coordinating the procurement of goods and services; (vi) coordinating and managing the financial management; and (vii) monitoring and reporting the performance of the Project to the World Bank and other concerned DPs and stakeholders.

23. MEFCC is responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and the other key line ministries to implement the Project; (iii) leading implementation of three project activities (Earth observation support, Climate policy and legal implementation gap analysis, and Climate vulnerability assessment of households and development of a climate change tracking tool) as detailed in Annex 2; and (iv) participating in capacity building activities.

24. MoANR is responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and the other key line ministries to implement the Project; (iii) leading implementation of two project activities (Climate risk insurance options study, and Assessment of cross sector trade-offs and opportunities) as detailed in Annex 2; (iv) providing working facilities for a team of consultants to be assigned to the Ministry; and (iv) participating in the capacity building activities.

25. MoLF is responsible for promoting livestock and fisheries development including rangeland development. MoWIE is responsible for promoting the development of water resources, basin management, medium- and large-scale irrigation, electricity, and expansion of potable water supply coverage as well as ensuring proper execution of functions of the National Meteorological Agency. In line with their mandates, MoLF and MoWIE are responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and other key line ministries to implement the Project; (iii) providing working facilities for a team of consultants to be assigned to their respective ministries; and (iv) participating in capacity building activities.

26. Because the MSIP process is based on an inclusive engagement, stakeholders (including civil society organizations, academia and partners) need to sustain their engagement to advance the MSIP development through: (i) providing information on current portfolios, priorities, and

pipelines so as to conduct portfolio review against MSIP priority activity packages; and (ii) actively participating in preparing and reviewing the draft MSIP document, among others.

### B. Results Monitoring and Evaluation

27. Monitoring and evaluation (M&E) of the Project will require close coordination between the GoE's line ministries and the World Bank. As presented in Annex 1, the proposed results framework for the Project includes monitoring indicators and corresponding expected results, which can be considered strategic milestones in assessing progress in the implementation of the Project. As the lead institution for the development of the MSIP, MoFEC will be primarily responsible for monitoring and reporting the performance of the Project as per the agreed indicators. Simple M&E reports will be provided every six months and Project Completion Report at closing. The World Bank and AfDB teams will maintain close dialogue with GoE counterparts, especially MoFEC.

28. Periodic joint implementation support missions with an M&E focus over the lifetime of the Project will be organized with the World Bank and partners. A Grant Completion Report will be prepared by the Bank at the end of the Project as per World Bank procedures, based partly on MoFEC's Project Completion Report.

### C. Sustainability

29. The Project supports the development, implementation and institutionalization of the MSIP, which helps build sustainability into national planning and investment activities. The MSIP development process is based on an inclusive engagement to build ownership and support for the planning and investment selection process; consolidate and harmonize information sharing; foster collaboration across sectoral, institutional and disciplinary boundaries; and reduce costly fragmentation. Because the process itself is a product, the sustainability of resilience interventions can be enhanced through this Project.

30. Furthermore, the Project will support preparation of credible climate financing proposals by: (i) centering on an inclusive and consultative process with numerous DPs and other stakeholders; and (ii) largely building on and incorporating all major strategies, programs, projects and analytics for Ethiopia. Using these climate finance proposals, the MSIP process aims to leverage and create a multiplier effect in scaling up investment and action through 2030 using new and additional financing from multiple sources to support Ethiopia to achieve its climate resilience objectives. By doing so, the MSIP process will boost GoE's capacity for cost-effective and efficient scaled-up action on the ground.

31. With regard to manpower and institutional capacity, after 18 months, the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC, and existing human resources in the four line ministries will have enhanced capacity as a result of the RRT. In line with this, manpower and institutional capacity developed at MoFEC and four line ministries (MEFCC, MoANR, MoLF, and MoWIE) are expected to be broadened and strengthened further in order to continue functioning as main: (i) climate resilience planning and coordination units in each sector, and (ii) cross-sectoral coordination platforms. As the Project is expected to mobilize new and additional financing from multiple sources, strong institutions staffed with technically

advanced manpower have to do the coordination and oversee the efficient use of such resources. Hence, the technical teams assembled during this Project will form the basis in establishing stronger climate resilience units in key sectors capable in leading resilience programs/projects of considerable sizes.

## V. KEY RISKS AND MITIGATION MEASURES

32. **The overall risk of the Project is rated Low** for the following reasons: (i) the Project is purely of a technical assistance nature, (ii) the development and implementation of Ethiopia's CRGE Strategy enjoys a high level of political leadership and buy-in, and is sufficiently integrated into the GTP-2, which is the country's five year national development plan that will cover 2016-2020; (iii) the institutional arrangements for implementing this Project are built on existing CRGE structures and led operationally and strategically by MoFEC which has been successfully hosting its operational CRGE Unit for a number of years.

33. While the Project is in line with Ethiopia's CRGE Strategy, it faces some challenges to achieving the PDO. The risks are related to capacity constraints, weak cross-sectoral coordination, and a multitude of planning processes in play. In particular, the Project faces low financial management (FM) risk but high procurement management risk. Measures to address these risks are being taken and are planned, as part of the on-going CRGE capacity building being delivered by the Bank and DPs – many of whom are donors to IDA and the CIF. In particular, MoFEC leads and coordinates the CRGE initiative in the country and PPCR, working closely with four line ministries (MEFCC, MoANR, MoLF, and MoWIE). This existing institutional set-up headed by MoFEC's existing CRGE Unit provides a reasonably strong basis for this grant to the GoE to help institutionalize and sustain coordinated investment planning for resilient landscapes and help ensure that various analytics, tools, and teams are moving toward the same existing CRGE vision. The MSIP process is being further facilitated by the existing designated focal points within MoFEC, MoANR, MEFCC, MoLF, and MoWIE as well. It is also based on an inclusive engagement of key DPs and stakeholders to build ownership and support for the planning and investment selection process; consolidate and harmonize information sharing; foster collaboration across sectoral, institutional and disciplinary boundaries; and reduce costly fragmentation. The Project will also address the identified risks by recruiting a team of consultants with specialized technical and sectoral skills. Lastly, the Bank's task team will provide regular implementation support to ensure the identified procurement management risks are well managed (See Annex 3).

# VI. APPRAISAL SUMMARY

## A. Technical

34. The MSIP process will help Ethiopia to systematically convene, coordinate and complement financing for resilience objectives in forest, agriculture, livestock, water and energy from a variety of existing and future sources. It will help to channel and blend multiple resources, including climate and non-climate financing, private investment, government budget, direct financing to CRGE, bilateral support, pooled and stand-alone financing, among others. It will also enhance and expand the GoE's existing large scale resilience programs [such as the Sustainable Land Management Program (SLMP)]; help fill gaps in resilience responses (i.e., insurance, performance-based payments, etc.); strengthen the credibility of investment proposals, plans, programs, projects, and policies; and reduce transaction costs to Ethiopia and her partners from overlaps and duplications. By doing so, the MSIP process will boost the country's capacity for cost-effective and efficient scaled-up action on the ground as well.

35. Through the MSIP process, the GoE seeks to address some of the key challenges and barriers facing its climate-vulnerable natural resource-based sectors and support a transition to a more green and resilient development path. The Project will support Ethiopia's CRGE initiative and provide additional focus on the resilience aspects of programming, including cross-sector opportunities and trade-offs, for example managing biomass and water resources. In this regard, the Project can contribute to the overall MSIP process by providing technical/analytical skills, resources for consultations and some operating costs for a core government team to guide the process within five ministries allied with numerous domestic and international partners. This approach will also support and fill gaps facing existing initiatives, help mobilize new and additional financing, and help leverage larger investments.

## B. Financial Management

36. An FM Assessment was conducted in accordance with the Financial Management Practices Manual for the Bank-financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and reissued in February 2015 as well as the small grant recipient-executed trust fund grants guidance note issued in 2015. The objective of the assessment was to determine whether the participating institutions have adequate financial management systems and related capacity in place which satisfies the Bank's Operation Policy/Bank Procedure (OP/BP) 10.00. The assessment also included the identification of key perceived financial management risks that may affect program implementation and proceeded to develop mitigation measures against such risks. The assessment was conducted for the implementing agency of the Project, MoFEC and its unit specifically tasked to handle this Project which is the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility. This unit will coordinate and manage the FM aspects of the Project.

37. MoFEC has experience in Bank-financed projects. The Project will largely follow the GoE's accounting policies and procedures which are robust. In addition, a brief FM Guideline highlighting basic FM arrangements for the Project will be prepared by MoFEC. Adequate staff are in place within the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility. Internal audit oversight over the Project is deemed weak and will be given attention

during implementation. Based on the FM assessment conducted, **the FM residual risk for the Project is rated as Low**. Actions are agreed as mitigation measures to address the risks and weaknesses noted (see the Financial Management Action Plan in Annex 3B).

38. **Funds flow.** Two accounts will be opened for the Project (i.e., a segregated designated account in US$ currency and a local currency account) to be opened by MoFEC at the National Bank of Ethiopia (NBE). The grant funds will flow from the Bank into a US$ designated account (DA), and funds from this account will then be transferred to the local currency (Ethiopian birr) account to be held by MoFEC.

39. MoFEC will submit Interim Financial Reports (IFRs) within 45 days after the end of each quarter. In addition, MoFEC will have the Project's financial statement audited by an auditor acceptable to the Bank. The audit will cover the entire life of the Project and will be conducted after closure. The audit will be submitted within six months after the end of the closing date of the Project. With regard to disbursement, all disbursement methods are available to the Project. The Report (IFR) based disbursement method using statements of expenditure will be used when disbursing project funds to the DAs and for reimbursements. Further details about disbursements to the Project are included in the Disbursement Letter.

40. Based on the assessment conducted, the proposed FM arrangements meet the World Bank's requirements as per OP/BP 10.00. It is adequate to provide, with reasonable assurance, accurate and timely information on the status of the Project. Detailed FM arrangements are documented in the FM Assessment report and the key aspects are described in Annex 3B.

## C. Procurement

41. The grant financing for the Project will not involve any high value, complex or significant procurement and will be straight forward in terms of procurement. The procurement implementing unit of the grant will be the Finance and Procurement Directorate (FPD) of MoFEC. Since the Directorate has no prior experience working on Bank-financed project procurement, **the project procurement risk is assessed as High** and risk mitigation measures have been identified and agreed upon (see Annex 3C for details).

42. Procurement under the Project will be carried out in accordance with: (a) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under International Bank of Reconstruction and Development (IBRD) Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (b) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (c) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011; (d) introduction of Exceptions to National Competitive Bidding Procedures; and (e) the provisions stipulated in the Grant Agreements. Bank standard documents shall be used for procurement of goods and works through International Competitive Bidding (ICB) and for all consultants exceeding US$200,000. National competitive bidding will use government standard bidding documents and procedures subject to the exceptions as agreed with the Bank (see Annex 3C for details).

## D. Social and Environment

43. The Project only finances supportive technical assistance activities. The Project will finance only consultancy services, non-consulting services, workshops, travel, and operating costs. No investment on the ground is financed. The Project aims to assist GoE to identify, prioritize, and mainstream risks to development faced by current and future vulnerability to climate change risks, and provide a tool for mobilizing and coordinating financing to help build the resilience of the rural economy. Discrete investment proposals and enhancements arising from this grant will each include their own risk management and sustainability strategies as per the relevant institutions and DPs involved.

44. Even though the formulation of the MSIP, supported by the Project, is expected to have significant positive environmental and social impacts, the MSIP itself may have future consequences when implemented. To mitigate this risk, the GoE has put in place a safeguards instrument entitled "Environmental and Social Safeguards Framework (ESSF) for the CRGE initiative." Risks resulting from implementation of the MSIP will be addressed as per the country's ESSF for the CRGE, existing safeguards instruments in place for existing investment programs, as well as safeguards policies of DPs that may become engaged in financing MSIP implementation.

## E. Safeguards

45. For the reasons in Section D immediately above, the Project does not trigger any World Bank social and environment safeguards policies. **Category C is confirmed for the Project**.

## F. World Bank Grievance Redress Service

46. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

## ANNEX 1: RESULTS FRAMEWORK AND MONITORING

### Country: Ethiopia

### Project Name: Multi-sector Investment Planning for Climate Resilience (P158987)

### Results Framework

**Project Development Objectives**

PDO Statement

The PDO is to support Ethiopia's effort to develop a programmatic multi-sector investment plan for climate resilience in key sectors, including agriculture and forestry.

| | |
|---|---|
| **These results are at** | Project Level |

**Project Development Objective Indicators**

| | | Cumulative Target Values | | |
|---|---|---|---|---|
| Indicator Name | Baseline | YR1 | YR2 | End Target |
| 1. Multi-sector investment plan prepared (Yes/No) | No | Yes | Yes | Yes |
| 2. Government institutions provided with capacity building support to improve climate resilience (Number) | 0.00 | 5.00 | 5.00 | 5.00 |

| | | | | |
|---|---|---|---|---|
| 3. Direct project beneficiaries (Number) - (Core) | 0.00 | 280.00 | 280.00 | 280.00 |
| A. Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core) | 0.00 | 10.00 | 10.00 | 10.00 |

### Intermediate Results Indicators

| Indicator Name | Baseline | Cumulative Target Values | | |
|---|---|---|---|---|
| | | YR1 | YR2 | End Target |
| 4. Key analytics and dialogues supported (Number) | 0.00 | 4.00 | 6.00 | 6.00 |
| 5. Experts trained on topics related to climate resilience (Number) | 0.00 | 100.00 | 150.00 | 150.00 |
| A. Female experts (Percentage - Sub-Type: Supplemental) | 0.00 | 10.00 | 10.00 | 10.00 |
| 6. Technical consultants recruited and successfully delivered their ToR (Number) | 0.00 | 10.00 | 10.00 | 10.00 |

| | | | | |
|---|---|---|---|---|
| 7. Resource mobilization outreach events held (Number) | 0.00 | 2.00 | 4.00 | 4.00 |
| 8. Portfolio tracking system improved and maintained (Yes/No) | No | Yes | Yes | Yes |

## Indicator Description

### Project Development Objective Indicators

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| 1. Multi-sector investment plan prepared | The Project will result in the formulation of one comprehensive multi-sector investment plan for climate resilience in key sectors, including agriculture and forestry (See detailed indicator definition). | Annual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 2. Government institutions provided with capacity building support to improve climate resilience | Five line ministries and regional bureaus engaged in the MSIP process will be provided with capacity building support to improve climate resilience (See detailed indicator definition). | Annual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 3. Direct project beneficiaries | Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage) Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage. | MoFEC with MEFCC, MoANR, MoLF and MoWIE | Project records | MOFEC |
| A. Female beneficiaries | Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female. (Sub-indicator for indicator 3) | Annual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |

**Intermediate Results Indicators**

| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
|---|---|---|---|---|
| 4. Key analytics and dialogues supported | The key analytics will include the preparation and dissemination of six products and facilitate dialogues around these products. See detailed indicator definition and also Annex 2. | Annual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 5. Experts trained on topics related to climate resilience | 150 experts will be trained on five climate resilient related topics (See detailed indicator definition). | Biannual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| A. Female experts | Sub-indicator for indicator 5. | Biannual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 6. Technical consultants recruited and successfully delivered their ToR | Ten local consultants will be deployed to establish and maintain a RRT. The effectiveness of the technical consultants will be measured through the successful delivery of their terms of reference. See detailed indicator definition and also Annex 2 (Component 2). | Annual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 7. Resource mobilization outreach events held | Four climate finance proposals; one strategic action plan for private sector; and a self-managed community revolving funds project proposal will be developed. Also four events (two international and two national) will be held (see detailed indicator definition and also Annex 2). | Biannual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |
| 8. Portfolio tracking system improved and maintained | See detailed indicator definition and also Annex 2 (Component 2). | Biannual | Project records | MoFEC with MEFCC, MoANR, MoLF and MoWIE |

## Detailed Indicator Definitions

1. Each indicator for measuring progress of the Multi-Sector Investment Planning for Climate Resilience Project achievements is defined below.

### Indicator 1. Multi-sector investment plan prepared

2. This indicator will measure the formulation of a comprehensive, unified, realistic, costed multi-sector investment plan that can harness synergies and ensure an integrated approach for scaling up and coordinating financing for climate resilience. The MSIP formulation will focus on the forest and agriculture sectors, and will incorporate activities in the water, energy and livestock sectors. The MSIP will consist of a pipeline of large scale, programmatic investments that serve to contribute to GoE's priorities and the achievement of the goals under the Government's GTP-2 and CRGE Strategy.

### Indicator 2. Government institutions provided with capacity building support to improve climate resilience

3. This indicator will measure the extent to which the capacity of the five line ministries (MoFEC, MEFCC, MoANR, MoLF, and MoWIE) and regional bureaus engaged in the MSIP process has improved. This will be effected by: (i) providing capacity development/training on climate resilience related topics, (ii) engaging them in the MSIP and prioritization tool development, selection and prioritization of MSIP activity packages, analytical dialogues, resource mobilization outreach, climate resilience portfolio tracking system, investment proposals preparation, and (iii) providing goods. It will also consider coordination practices carried out during the Project life. In addition, Ethiopia's policy makers will benefit from analytical inputs for sector planning, access to global best practice in climate resilience planning and finance, as well as a stronger position in convening and leveraging international climate finance for enhancing existing investments and scaling-up new financing.

**Indicator 3. Direct project beneficiaries (number), of which female (percentage) –** Bank core indicator

4. A 'beneficiary' in the broadest sense is anyone who is benefiting from a project/program. In particular, in the context of Bank-financed operations, direct beneficiaries are people or groups who directly derive benefits from an intervention (that is, children who benefit from an immunization program or families that have a new piped water connection). Based on the assessment and definition of direct project beneficiaries, the percentage of female beneficiaries is specified.

5. This indicator defines the direct beneficiaries from the Project. Accordingly, the Project will benefit 280 experts (10 percent female) of the five ministries and regional bureaus engaged in the MSIP process. This will be effected though providing capacity development/training on climate resilience related topics for 150 beneficiaries. Further, 130 beneficiaries will benefit through: (i) engagement in the MSIP and prioritization tool development, selection and prioritization of MSIP activity packages, analytical dialogues, resource mobilization outreach, climate resilience portfolio tracking system, investment proposals preparation, and (ii) providing

goods. During implementation, data will be provided on the estimated actual number of project direct beneficiaries, including percentage female beneficiaries.

**Indicator 4. Key analytics and dialogues supported**

6. This indicator will measure the preparation and dissemination of six key analytical products and the dialogues held around these products. The six key analytics include (i) Cost benefit analyses of key climate change interventions; (ii) Climate policy and legal implementation gap analysis; (iii) Assessment of cross-sector trade-offs and opportunities; (iv) Climate Vulnerability Assessment of Households and Development of Climate Change Tracking Tool; (v) Earth Observation Support; and (vi) Climate Risk Insurance Options Study. Two workshops (launching and validation) on each key analytical product will be held to facilitate dialogues among government organizations, DPs, NGOs, Academia and think tanks. See Annex 2 for further information.

**Indicator 5. Experts trained on topics related to climate resilience**

7. This indicator will capture the number of experts (150, of which 10 percent female)) of line ministries and regional bureaus to be trained on five topics related to climate resilience. The training topics include: (i) Economics of climate resilience development and policy instruments for green growth and climate resilience; (ii) Climate screening tools; (iii) Climate change vulnerability assessment; (iv) Climate smart planning; and (v) Disaster risk management.

**Indicator 6. Technical consultants recruited and successfully delivered their ToR**

8. This indicator will capture the recruitment of ten local technical consultants to establish and maintain a RRT that can be deployed within GoE across the five relevant ministries to develop and enhance projects and programs that deliver on climate risk management objectives. This indicator will also measure the effectiveness of the technical consultants using the successful delivery of their terms of reference. See Annex 2 (component 2) for main areas of responsibilities and expertise of the RRT.

**Indicator 7. Resource mobilization outreach events held**

9. This indicator will capture the preparation of: (i) four climate finance proposals, (ii) one strategic action plan for private sector investment in sustainable natural resources and forest based business, and (iii) a self-managed community revolving funds project proposal. It will also capture the events to be held to mobilize resources. In this regard four events (two international and two national) will be held. The GoE will use various forms of outreach events, including “fund-raising roadshows as well as strategic action plan for private sector investment. See Annex 2 for further information.

**Indicator 8. Portfolio tracking system improved and maintained**

10. This indicator will measure the improvement and functionality of the Portfolio Tracking System that will capitalize on the existing CRGE registry system and allow MoFEC and the four line ministries to track investment and other actions to improve climate resilience. More

specifically, the indicator will capture: (a) improvements in information and data management that are critical to inform and gauge progress towards scaled-up resilience financing and GTP-2 targets; (b) increasing access to and sharing of information and other data with stakeholders; (c) enhancement in coordination, stakeholder participation and convening financing, and (d) spatial data services and assessments. See Annex 2 for further information.

## ANNEX 2: DETAILED PROJECT DESCRIPTION

1. The grant will finance TA for 18 months under two components: (1) Analytical Support, and (2) Institutional Support for MSIP and CRGE Strategy Implementation.

**Component 1: Analytical Support** ***(US$0.83 million)***

2. Component 1 will finance the preparation and dissemination of key analytics and facilitate dialogues around these products and other existing information related to climate resilience, as well as training and capacity building activities. This component covers the costs of consultants, workshops, travel, goods, and services. Technical consultants recruited under "Activity 2.1: Rapid Response Team (RRT)" will be a resource that contributes to the organization and delivery of workshops, policy dialogue within line ministries, and data collection and adds value to the quality and delivery of key MSIP activities and the broader CRGE Strategy. Activities to be financed are as follows:

**Activity 1.1: Cost benefit analyses (CBA) of key climate change interventions** ***(US$0.14 million)***

3. This activity will finance proven consultancies that have delivered international standard work to undertake CBA(s) for specific on the ground selected packages of prioritized interventions[1] in the rural landscape that the GoE aims to scale-up to enhance climate resilience. Interventions could include both investments and policies. It will also finance workshops and dissemination of technical reports related to the task. The aim of the CBAs will be to assist GoE decision makers to understand the medium term implications of proposed investment alternatives. The CBAs will take into account climate projections and uncertainties, since a positive cost-benefit ratio now may not necessarily hold true under likely climate scenarios within the CRGE planning horizon. CBAs that help quantify trade-offs and opportunities across sectors may bring much added value to multi-sector investment planning for a climate resilient, green economy future in Ethiopia. Topics for analysis will be prioritized during implementation, given the limited budget and time.

4. CBAs will be deployed to better understand the relative merits of project-level technology options. For example, "low tillage" could be a priority intervention at the higher level of the MSIP but more resolution will be needed when preparing or enhancing a discrete investment operation given that low tillage technologies come in all shapes and sizes (with and without pesticides, different rippers, different soil profiles, etc.).

5. **Outputs.** CBA reports that include pragmatic analysis of the cost effectiveness of various investment options for CRGE and GTP-2 implementation. CBA reports and outputs of other activities under analytical support that will be used to inform and update the MSIP prioritization framework, as the delivery of the investment plan rests on this prioritization framework to identify

[1] With existing support from the Bank-executed CRGE Advisory Services and Analytics (ASA) and supported by two PPCR joint missions held in February and June 2016, a draft MSIP Prioritization Framework/Tool was prepared to prioritize interventions, and this tool will be applied by the government to help prepare the multi-sector investment plan.

those investment activities that are deemed most critical in advancing towards Ethiopia's climate resilience objectives.

6. **Timing.** This work will commence early in Project Year (YR) 1. Individual CBAs for specific sets of interventions or specific sectors could be delivered on a rolling basis programmatically.

7. **Implementation arrangements.** MoFEC will take the lead on this activity, working with the four line ministries and other actors as relevant. MoFEC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.2: Climate policy and legal implementation gap analysis *(US$0.1 million)***

8. Good public policy, laws, and regulations can unlock climate action and complement international and domestic investment in public and private sectors substantially. This activity will finance an analysis of the existing policy and regulatory for climate resilience and institutional mandates for implementation, focusing on policy gaps, implementation gaps, incompatible incentives that may now be hindering progress and investment toward a climate resilient, green economy future. Furthermore, this activity will build up on an existing recent study on public climate resilience expenditures carried out by the Overseas Development Institute (ODI) and Addis Ababa University's climate group as well as on the on-going portfolio review focused on thematic, financial, and spatial gaps.

9. **Outputs.** A report with pragmatic options for policy, regulatory, incentive and institutional changes that may be effected through CRGE and GTP-2 implementation, including through future investments. The report will be disseminated and validated through workshops with key policymakers to strengthen the cross-sectoral climate policy dialogue.

10. **Timing.** This work will commence early in YR1.

11. **Implementation arrangements.** MEFCC will take the lead on this activity, working with MoFEC and the three line ministries and other actors as relevant. MoFEC in collaboration with MEFCC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.3: Assessment of cross-sector trade-offs and opportunities *(US$0.15 million)***

12. This activity will finance an assessment of investment opportunities, synergies, and trade-offs across the key sectors being examined in the MSIP. For example, an assessment could be carried out to determine the return on investment in strategic reservoirs from on-going watershed restoration efforts in strategic basins. A biophysical assessment has been carried out by the Ethiopian Land and Water Resource Center as part of the on-going SLMP-2, and presented to Parliament. Furthermore, the outputs of the CBAs will be used as inputs to carry out assessment of cross-sector trade-offs.

13. **Outputs.** A report with pragmatic options for CRGE and GTP-2 implementation and future investment projects. The report will be disseminated and validated through workshops with key policymakers to strengthen the cross-sectoral climate policy dialogue.

14. **Timing.** This work will commence early in YR1.

15. **Implementation arrangements.** MoANR will take the lead on this activity, working with MoWIE, MoLF and MEFCC. MoANR will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.4: Climate Vulnerability Assessment of Households and Development of Climate Change Tracking Tool** ***(US$0.1 million)***

16. This activity will finance climate vulnerability assessment at households' level (based on agreed criteria to be set) and development of climate change vulnerability tracking system. The work will be based on a synthesis of existing work on this topic, supplemented by assessments for a selected sample of households, as needed. The findings of the assessment will be used as inputs for forward planning of CRGE investments and for awareness-raising events on climate change impacts, vulnerabilities and resilience/adaptation for government organizations, including policy makers, and other stakeholders, among others.

17. **Outputs.** A report with pragmatic options for CRGE and GTP-2 implementation, including recommendations for design or geographic targeting of scaled-up interventions to address vulnerability gaps or concerns.

18. **Timing.** This work will commence early in YR1.

19. **Implementation arrangements.** MEFCC will take the lead on this activity, working with MoFEC, MoLF, MoANR, MoWIE, and other actors as relevant. MEFCC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.5: Earth Observation Support** ***(US$0.1 million)***

20. This activity will finance the access to and application of earth observation systems, and support the GoE to put in place or strengthen existing geospatial decision support services to better manage climate risk in existing programs and projects in the four key ministries. The initial step will be to assess existing capabilities and gaps and to contact the European Space Agency, SERVIR in Kenya (www.rcmrd.org) and other sources of geospatial data to determine availability of programs or parallel financing to supplement this work, provide analytical services and to provide hands-on training for Ethiopian experts and institutions. In this regard, the European Space Agency, through Hatfield Consultants, is being engaged very recently to provide support on this activity.

21. **Outputs.** A report with pragmatic options for CRGE and GTP-2 implementation, including possible follow on activities (project concepts) that can be financed in the future.

22. **Timing.** This work will commence early in YR1.

23. **Implementation arrangements.** MEFCC will take the lead on this activity, working with the National Meteorological Agency, MoWIE, MoANR, MoLF, and other actors as relevant. MEFCC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.6: Climate Risk Insurance Options Study** ***(US$0.1 million)***

24. This activity will finance analysis of on-going initiatives and development of comprehensive insurance model/framework and workshop on climate insurance options that could be relevant in the Ethiopian context and could be further considered by GoE decision-makers. During the workshop, insurance options will be summarized and presented, building upon existing analytical work and initiatives on climate and disaster risk insurance, including, for instance, crop and livestock insurance. The workshop will seek to identify areas where insurance could enable greater financial protection against climate-related risks such as droughts or floods.

25. **Outputs.** A workshop report with pragmatic options for CRGE and GTP-2 implementation

26. **Timing.** This work will commence early in YR1.

27. **Implementation arrangements.** MoANR will take the lead on this activity, working with MoLF, MoWIE. MoFEC, and MEFCC, and will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 1.7: Capacity Building/Training** ***(US$0.14 million)***

28. This activity will build on the on-going programmatic Bank-executed advisory services that have delivered extensive training on sources of climate finance and preparing financing proposals, among others. The outputs of the analytical studies will be also used to support this activity with concrete evidence. This activity will finance capacity building and training on topics related to climate resilience. Specifically tailored and customized trainings on the Economics of Climate Resilience Development and policy instruments, climate change vulnerability assessment, climate smart planning, disaster risk management, and M&E. Capacity building on Climate screening tools will also be an important activity to enable the GoE to screen their investments under the MSIP for climate resilience. Therefore, this activity will help institutionalize a multi-sectoral learning culture via extensive training. This activity will finance GoE participants, logistics and training delivery costs. The cost of development of training programs and associated expertise will be partially covered under the existing World Bank - Programmatic Advisory Services to the CRGE Facility.

29. **Outputs.** Five training workshops on: (i) Economics of climate resilience development and policy instruments for green growth and climate resilience; (ii) Climate screening tools; (iii) Climate change vulnerability assessment; (iv) Climate smart planning; and (v) Disaster risk management.

30. **Timing.** This work will commence early in YR1.

31. **Implementation arrangements.** MoFEC will take the lead on this activity, working with the four line ministries and other actors as relevant. MoFEC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Component 2: Institutional Support for MSIP and CRGE Strategy Implementation *(US$0.67 million)***

32. Component 2 will finance the deployment of a RRT comprising of local consultants, resource mobilization outreach, portfolio tracking system, and project management. This TA will include the costs of consultants, workshops, travel, goods, and services. Key activities to be financed are as follows.

**Activity 2.1: Rapid Response Project Support Team *(US$0.36 million)***

33. This activity will finance consultancies to establish and maintain a RRT that can be deployed within GoE across the four relevant ministries to develop and enhance projects and programs that deliver on climate risk management objectives. The consultants will assist GoE counterparts to: (a) design individual projects and financing proposals, (b) enhance existing projects and programs to deliver on climate resilience objectives in GTP-2 and the CRGE Strategy, (c) troubleshoot and provide advice to existing relevant projects and programs, (d) carry out feasibility studies for new projects, (e) support operationalization of cross-sectoral coordination to better implement climate risk management across existing projects and programs that could benefit from mutual cooperation to achieve joint sectoral objectives (e.g., reforestation on agricultural lands and watershed rehabilitation), (f) carry out strategic and tactical communications work, (g) advise on areas where social and environmental risk may need to be managed and mitigated, or where more technical and expert assessments will be expected/needed, and (h) contribute to analysis, data collection, workshops and dissemination activities being conducted under Component 1 above. In addition, the consultants will support MoFEC and line ministries to implement the Project, under the direction of MoFEC's CRGE Coordinator and sectoral CRGE Coordinators in the line ministries.

34. Parallel financing under Bank-executed CRGE Facility advisory services will secure additional advisory expertise from the World Bank task team to work closely with the full team of consultants under the client's supervision.

35. After 18 months, the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility and existing human resources in the four line ministries will have enhanced capacity as a result of the RRT. The RRT will be engaged by the GoE through other sources.

36. The consultancies are listed in the table below:

| S.N. | Title | Unit | Quantity | Unit cost US$ (000) | Budget US$ (000) | | |
|---|---|---|---|---|---|---|---|
| | | | | | YR1 | YR2 | Total |
| 1 | Agronomist | Expert-month | 18 | 2 | 24.0.0 | 12.0 | 36.0 |
| 2 | Forest specialist | Expert-month | 18 | 2 | 24.0.0 | 12.0 | 36.0 |
| 3 | Livestock specialist | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 4 | Social safeguards specialist | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 5 | Rural energy specialist | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 6 | GIS Specialist | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 7 | Irrigation engineer | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 8 | Environmental lawyer | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 9 | Economist | Expert-month | 18 | 2 | 24.0 | 12.0 | 36.0 |
| 10 | Hydro-geologist | Expert-month | 18 | 2.15 | 25.9 | 12.9 | 38.7 |
| | Sub-total for local consultants | | | | | | 362.7 |

37. **Outputs.** The outputs include technical and institutional strengthening of the CRGE teams at MoFEC and relevant line ministries and contributions to specific analytical studies, feasibility studies, workshops and proceedings, and project proposals.

38. **Timing.** This work will commence in early YR1.

39. **Implementation arrangements.** MoFEC will take the lead on this activity, working with the four line ministries and other actors as relevant. MoFEC will develop a costed annual work plan and budget for this activity, thus contributing to the development of the joint Project annual work plan, budget and procurement plan (PP), which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC. ToRs will be developed for the individual experts to include the items above and a general scope of duties related to cross sectoral coordination and integrated forward planning for climate resilient investment.

**Activity 2.2: Resource Mobilization Outreach** ***(US$0.10 million)***

40. This activity will finance the GoE and key consultancies as needed to raise interest among international partners, domestic and international investors, foundations, and donors; and get their support for MSIP implementation.

41. **Outputs.** The outputs include: (a) fundraising for MSIP, such as through holding "fund-raising roadshows" or other forms of outreach at relevant international public and private sector events or among targeted companies, foundations, or donors; (b) design climate finance proposals for resources mobilization, (c) strategic action plan for private sector investment in sustainable natural resources and forest based businesses; ; and (d) design (not implementation) of community revolving funds modelled after the successful community self-managed revolving funds developed by SLMP-2, funded by SLMP-2 communities themselves.

42. **Timing.** This work will commence in mid YR1.

43. **Implementation arrangements.** MoFEC will take the lead on this activity, working with the four line ministries and other actors as relevant. MoFEC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement

plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 2.3: Portfolio Tracking System *(US$0.10 million)***

44. This activity will capitalize on the existing CRGE registry system and finance the establishment of a portfolio tracking system to track investment and other actions to improve climate resilience. It will also help reduce fragmentation and enhance reporting on CRGE and MSIP objectives. The scope of the portfolio includes large scale World Bank-financed operations such as the Sustainable Land Management Project, Agricultural Growth Project, Productive Safety Net Program, new livestock program, and the new Oromia Forested Landscape Program, as well as many others. A portfolio review is underway.

45. **Outputs.** The outputs include: (a) improvements in information and data management which are critical to inform and gauge progress towards scaled-up resilience financing and GTP-2 targets; (b) increasing access to and sharing information and other data with concerned and wider stakeholders; (c) enhancement in coordination, stakeholders participation and convening financing, and (d) spatial data services and assessments.

46. **Timing.** This work will commence in mid YR1.

47. **Implementation arrangements.** MoFEC will take the lead on this activity, working with the four line ministries and other actors as relevant. MoFEC will develop a costed annual work plan and budget for this activity, thus contributing to the overall project budget and procurement plan, which will be consolidated by the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility at MoFEC.

**Activity 2.4. Project Management *(US$0.11 million)***

48. This activity will finance the necessary fiduciary reporting by consultants working under MoFEC CRGE Coordinator supervision. This amount includes a five percent contingency to be re-allocated to activities based on needs that arise due to physical or price variations.

49. **Outputs.** The outputs of this activity include financial audit report, procurement audit report and project completion report.

50. **Timing.** As this is a small grant, all the audit works and preparation of project completion report will be started within six months of the closing of the Project.

51. **Implementation arrangements.** As MoFEC is managing the Project, it will take the lead on these activities. However, it will execute the activities in cooperation with the four line ministries which will access resources from the grant and implementation activities that they are delegated to execute or implement.

# ANNEX 3: IMPLEMENTATION ARRANGEMENTS

## Annex 3A: Institutional and Implementation Arrangements

1. Project implementation is based on the GoE's current implementation structures for the CRGE Facility, with core teams of government officials and support staff already in place to act.

2. MoFEC, through its Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility, will lead on coordinating and directing the investment planning process. MoFEC is the lead implementing agency and main liaison to the CIF and GCF. MoFEC prepared and delivered the Expression of Interest to the CIF Secretariat, which forms the basis for the design of this grant support. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility is responsible for: (i) leading the strategic MSIP process; (ii) coordinating the participation of the key line ministries; (iii) ensuring inclusive engagement of DPs and other concerned stakeholders; (iv) recruiting the RRT (see Component 2) with specialized technical and sectoral skills; (v) coordinating the procurement of goods and services; (vi) coordinating and managing the financial management; and (vii) monitoring and reporting the performance of the Project to the World Bank and other concerned DPs and stakeholders.

3. MEFCC is responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and the other key line ministries to implement the Project; (iii) leading implementation of three project activities (Earth observation support, Climate policy and legal implementation gap analysis, and Climate vulnerability assessment of households and development of a climate change tracking tool) as detailed in Annex 2; and (iv) participating in capacity building activities.

4. MoANR is responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and the other key line ministries to implement the Project; (iii) leading implementation of two project activities (Climate risk insurance options study, and Assessment of cross sector trade-offs and opportunities) as detailed in Annex 2; (iv) providing working facilities for a team of consultants to be assigned to the Ministry; and (iv) participating in the capacity building activities.

5. MoLF is responsible for promoting livestock and fisheries development including rangeland development. MoWIE is responsible for promoting the development of water resources, basin management, medium- and large-scale irrigation, electricity, and expansion of potable water supply coverage as well as ensuring proper execution of functions of the National Meteorological Agency. In line with their mandates, MoLF and MoWIE are responsible for: (i) engaging in the strategic MSIP preparation process; (ii) collaborating with MoFEC and other key line ministries to implement the Project; (iii) providing working facilities for a team of consultants to be assigned to their respective ministries; and (iv) participating in capacity building activities.

6. As the MSIP process is based on an inclusive engagement, stakeholders (including civil society organizations, academia and partners) need to sustain their engagement to advance the MSIP development through: (i) providing information on current portfolios, priorities, and pipelines so as to conduct portfolio review against MSIP priority activity packages; and (ii) actively participating in preparing and reviewing the draft MSIP document, among others.

7. Periodic joint implementation support missions with an M&E focus over the lifetime of the Project will be organized with the World Bank and partners. A Grant Completion Report will be prepared by the Bank at the end of the Project as per World Bank procedures, based partly on MoFEC's Project Completion Report.

## Annex 3B: Financial Management

8. A Financial Management assessment of MoFEC was conducted in accordance with the Financial Management Practices Manual for the Bank-financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and reissued in February 2015 as well as the small grant recipient-executed trust fund grants guidance note issued in 2015. In conducting the assessment, the Bank's team visited MoFEC with the department that is specifically dealing with the CRGE (Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility).

### Country Context

9. GoE has been implementing a comprehensive Public Finance Management (PFM) reform with support from DPs, including the Bank, for the last twelve years through the Expenditure Management and Control sub-program (EMCP) of the GoE's civil service reform program (CSRP). This is being supported by the closed IDA financed Public Sector Capacity building Support Program, the ongoing Promoting Basic Services program and other donor financing as well as Government own financing. These programs have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting, and auditing.

10. The 2014 Ethiopia Public Expenditure and Financial Accountability (PEFA) PFM performance measurement framework assessment is underway and draft reports issued for the federal as well as Addis Ababa city administration, Oromia, Amhara, Tigray, Somali and Southern Nations, Nationalities, and People (SNNP) regions. The 2010 PEFA PFM performance measurement framework assessment covered the federal government in the form of ministries and agencies as well as five regions. It found that Ethiopia has made significant progress in strengthening PFM at both federal and regional levels, especially in budgeting and accounting reform. The budget is reasonably realistic and is reasonably implemented as intended. Other areas of improvement are: increased budgetary documentation submitted to House of Peoples' Representatives, strengthened reporting on donor projects and programs, improved transparency in inter-governmental fiscal relations through greater timeliness in the provision of information to regional governments on the size of the budget subsidies that they will receive, and improved access by the public to key fiscal information through audit reports. Overall performance of external audit has improved due to increased coverage and a lessening of the time needed to audit annual financial statements. Audits conducted by Office of the Federal Auditor General generally adhere to International Organization for Supreme Audit Institutions auditing standards and focus on significant issues. The GoE needs to make public more detailed information on the incomes and expenditures of extra-budgetary operations.

11. Areas for improvement were noted in internal auditing, which necessitate increased focus on systems audit and increasing management response to audit findings. Further strengthening of the internal audit function is a key challenge. The full roll-out of Integrated Budget and Expenditure System has helped to strengthen the quality of in-year budget execution reports by including information on revenue and expenditures, financial assets and liabilities, but excluding information on donor-financed projects and programs.

**Financial Management Arrangements**

**Budgeting**

12. ***Budget preparation and proclamation***. Budget preparation for the Project grant will follow the GoE's budget system[1] recorded in the GoE's budget manual. The budget for the grant will be determined each year based on the annual work plan, PP, and budget to be prepared by all implementers. The overall annual budget for the Project will prepared by MoFEC and will be approved by the steering committee or the highest level overseeing the Project. The budget will also be submitted to the Bank for 'no objection'. The budget for the grant will be proclaimed at the federal level under the MoFEC.

13. ***Budget control***. Detailed program work plans, projected costs, and PPs will be finalized and agreed upon. These will form the basis for the Project costs noted in the project paper. Activities and costs noted in the work plans and budgets will be 'eligible expenditures' under the Project.

14. ***Budget dissemination***. The approved budget should be disseminated to all Project implementers in a timely manner. There is a need to compare actual expenditures with that of the approved budget to monitor progress and identify any impediments. Significant variations should be explained and the analysis should be used as a management tool to make important decisions. To facilitate this, the IFR of the Project will have a format for the analysis.

**Accounting**

15. ***Policies and procedures.*** The GoE's accounting policies and procedures[2] will be largely used for the accounting of the Project. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility has developed a financial management manual in line with the GoE manual.

16. ***FM Manual.*** The GoE's FM manual will be used for the Project. In addition, a brief FM Guideline defining basic FM arrangements for the Project will be prepared by the client. It is important to note that although the CRGE Operations Manual includes financial provisions and procedures, there are differences with the implementation arrangements of this Project and for this reason a brief FM Guideline will be prepared as noted above. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility uses the Chart of Accounts of the GoE. Hence for this Project, the Chart of Accounts will be modified to accommodate the reporting requirements for the Project. Monthly, quarterly, and annual reports will be produced directly from the FM system and thus a well-developed Chart of Accounts is crucial.

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[1] The budgets are reviewed at first by MoFEC and then by the Council of Ministers. The final recommended draft budget is sent to parliament around early June and is expected to be cleared at the latest by the end of the fiscal year.

[2] GoE follows a double entry book keeping system and modified cash basis of accounting. This is documented in the GoE's Accounting Manual. This has been implemented at the federal level and in many regions. The GoE's Accounting Manual provides detailed information on the major accounting procedures.

17. ***Accounting system***. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility is currently using Peachtree accounting software for donor-financed operations. Peachtree accounting software will also be used for this Project.

18. ***Staffing.*** At the MoFEC, the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility is staffed with one senior finance officer, a senior accountant, two accountants and one cashier/secretary. Two of the accountants mostly have the task of spot checking the donor resources that were released to line ministries and provide the reports required. Based on the draft budget submitted for the Project, most of the expenditure items are consultancy payments, workshops and trainings and operating costs. For these, the existing finance staff is adequate to manage the Project. However, in times of trainings and workshops, if the workload is found to be heavy, MoFEC could assign one accountant from its finance unit to assist the Project during these high peak seasons.

19. ***Accounting centers***. The accounting center for this Project will only be MoFEC. MoFEC will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM guidelines. Detailed arrangements for consolidation of the Project financial information are discussed under the Financial Reporting section below. MoFEC is responsible for maintaining the Project's records and documents for all financial transactions that occur in their offices. These documents and records will be made available to the Bank's regular implementation support missions and to the external auditors.

### Internal Control and Internal Auditing

20. Internal control comprises the whole system of control, financial or otherwise, established by the management to: (a) carry out the Project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the Project. Regular GoE systems and procedures are being followed, including those relating to authorization, recording, and custody controls at all implementing levels. The Project's internal controls, including processes for recording and safeguarding of assets, is captured in the GoE's FM manual and key ones will be firmed up in the FM Guidelines to be prepared for this Project.

21. ***Internal audit***. The MoFEC has an internal audit unit. However, this unit only reviews the treasury accounts due to limitation of staff. Therefore the Project will mostly depend on the reviews of the external audit firms. However, MoFEC will ensure that the internal audit unit will audit the Project once per annum.

**Financial Reporting**

22. ***Reporting requirements***. The Project will prepare consolidated unaudited IFRs each quarter. These will be submitted to the Bank within 45 days of the end of each quarter. The format and the content, consistent with the Bank's standards, will be agreed with the GoE before the grant signing. MoFEC, in the quarterly IFR, will ensure that the advances received and the expenditures are properly identified and reflected. At a minimum, the report will include a statement of sources and uses of funds and opening and closing balances for the quarter and cumulative balances; cash forecast statements; a statement of uses of funds that shows actual expenditures, appropriately classified by main Project activities (categories, components, and subcomponents); actual versus budget comparisons for the quarter and cumulative comparisons; a statement on movements (inflows and outflows) of the Project designated account, including opening and closing balances and notes and explanations; and other supporting schedules and documents.

23. ***Reporting timetables and quality***. Financial reports will be designed to provide high-quality, timely information on program performance to the program management, the Bank, and other relevant stakeholders. The accounting software to be adopted for the program is capable of producing the required information regarding program resources and expenditures. MoFEC will prepare the financial report and submit the same to the World Bank. It is the responsibility of the MoFEC to prepare consolidated quarterly unaudited IFRs, consolidate annual accounts, and facilitate the external audit of the consolidated accounts.

24. In compliance with International Accounting Standards and the Bank's requirements, MoFEC will produce annual financial statements similar to the contents of the quarterly IFRs. The annual financial statement will be similar to the IFRs with some modifications that will be indicated in the audit ToR. These financial statements will be submitted for audit at the end of each year.

**External Auditing**

25. Usually Annual audited financial statements and audit reports (including the Management Letter) will be submitted to the Bank within six months from the end of the fiscal year. Given that this project has a life span of less than two years, only one audit will be conducted at the end of the project life. It has been noted that the audit reports for the donor-financed operations in MoFEC are being submitted in a timely manner with clean audit opinions.

26. The Project financial statements will be prepared in accordance with the standards indicated in the audit ToR agreed before grant signing. The audit will be carried out by the Office of the Federal Auditor General, or a qualified auditor nominated by the Office of the Federal Auditor General and acceptable to the Bank. The audit will be carried out in accordance with the International Standards of Auditing issued by the International Federation of Accountants. Once the reports are issued, MoFEC has the responsibility to prepare audit action plans within one month of the receipt of the annual audit report. MoFEC will be responsible for submitting the consolidated status report within a maximum of two months after the receipt of the audit report.

27. In accordance with its policies, the Bank requires that the client disclose the audited financial statements in a manner acceptable to the Bank; following the formal receipt of these

statements from the client, the Bank makes them available to the public in accordance with its Policy on Access to Information.

**FM-related Costs**

28. The Project work plans and budget will include: (a) auditing costs, and (b) related logistics and supervision costs (for example, transportation, per diem, and accommodation while travelling).

**Financial Management Risk Assessment, Strengths, Weaknesses, Lessons Learned, Action Plan**

29. ***Risk assessment*. The FM risk of the Project is Low**. The mitigating measures proposed in the action plan will help reduce the risk of the Project once implemented and applied during Project implementation.

30. ***Strength and weaknesses***. The Project will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant on-going work is directed at improving country PFM systems through the GoE's EMCP. The GoE's existing arrangements are already being used in a number of Bank-financed projects, including the Program for Basic Services. The Project will also benefit from the country's internal control system, which sufficiently provides for the separation of responsibilities, powers, and duties. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility also has experience in managing donor financing for investment and TA operations.

31. The main weaknesses in FM arrangements will be the limited focus of internal audit.

**Financial Management Action Plan**

32. Factoring in the above strengths and weaknesses, the inherent and control risk of the Project is rated as low. The action plan for the project is depicted below.

**Table 1. FM action plan**

| No. | **Activity** | **Timing** |
|---|---|---|
| 1 | Prepare annual plan and budget and submit for approval by MoFEC management and proclamation | At the beginning of the fiscal year |
| 2 | Prepare and submit IFRs | Every quarter |
| 3 | Submit the audit report for the Project | Within six months after the end of the Project |
| 4 | Prepare a brief FM Guideline that summarizes basic FM arrangements, rules and regulations | Within 3 months after Project Effectiveness. |
| 5 | Internal auditors of MoFEC will review the Project once a year | Annually |
| 6 | Agree on the IFR format and the audit ToR | Before grant signing |

**Financial Management Covenants and Other Agreements**

33. FM-related covenants include: (a) maintenance of a satisfactory FM system for the Project; (b) submission of IFRs for each fiscal quarter within 45 days of the end of the quarter by the MoFEC; and (c) submission of audited financial statements and the audit report within six months after Project closure.

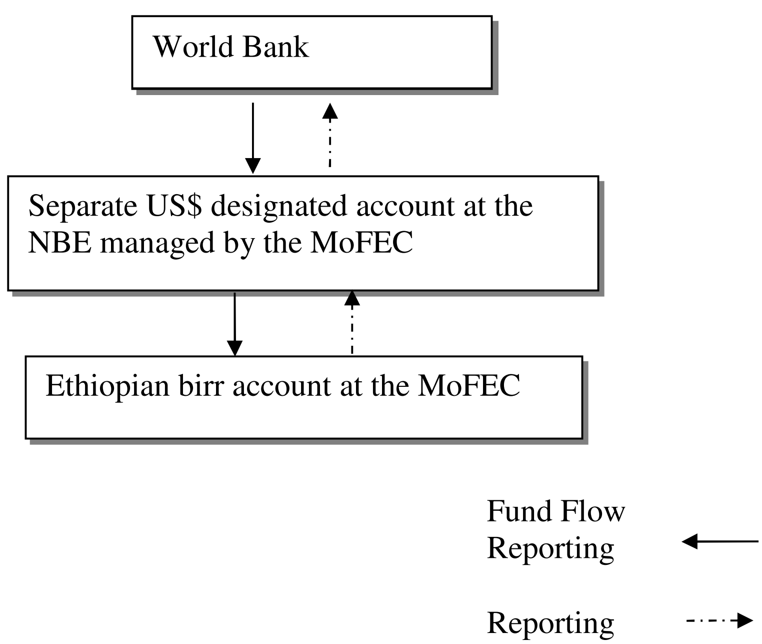
**FM Supervision Plan**

34. Since the FM risk for the Project is rated Low, the Project's FM will be supervised once every year. After each supervision, the risk will be measured and recalibrated accordingly. Supervision will be carried out in coordination with other DPs and will include on-site visits, review of IFRs and audit reports, and follow-up on agreed actions.

**Funds Flow and Disbursement Arrangements**

35. Funds flow of the Project is depicted below. Two accounts will be opened for the Project (i.e., a segregated designated account in US$ currency and a local currency account) to be opened by the MoFEC at the National Bank of Ethiopia (NBE). The grant funds will flow from the Bank into a US$ designated account (DA), and funds from this account will then be transferred to the local currency (Ethiopian birr) account to be held by MoFEC.

**Chart 1. Fund and Reporting flow**



**Disbursement mechanism and methods**

36. The Project may follow one or a combination of the following disbursement methods: designated account, direct payment, reimbursement, and special commitment. The Project will use IFR-based disbursement.

37. The allocation of proceeds will be based on the Project components. This will facilitate the monitoring of the Project performance indicators as well as financial aspects because expenditures are directly allocated to components. Requests for replenishment of the DA for expenditures incurred under each component will be based on expenditures incurred at the implementing agencies for which justification of utilization has been provided.

## Annex 3C: Procurement Management

### Background

38. Procurement management capacity assessment of the Finance and Procurement Directorate (FPD) of the MoFEC was conducted to assess for adequacy of procurement institutional capacity and governance structure to implement Bank financed investment projects. The Bank has been advised that the procurement implementing unit for the grant will be the FPD of MoFEC. Therefore, the Bank team assessed the procurement capacity of FPD of MoFEC on July 4, 2016. The team has also had limited discussions with the unit that is specifically dealing with CRGE (Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility).

### Procurement Implementation Arrangements

39. Procurement under the Project to be financed through IDA will be carried out in accordance with: (a) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (b) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (c) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011; (d) introduction of Exceptions to National Competitive Bidding Procedures; and (e) the provisions stipulated in the Grant Agreements. Bank standard documents shall be used for procurement of goods and works through ICB and for all consultants exceeding US$200,000. National competitive bidding will use government standard bidding documents and procedures subject to the exceptions included below.

40. A Procurement Plan acceptable to the Bank covering at least the first eighteen months will be agreed at negotiations. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame for major milestones will be agreed between the Borrower and IDA World Bank task team in the 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.

41. General Procurement Notice (GPN) will be prepared and published in United Nations Development Business (UNDB), on the Bank's external website and in at least one national newspaper after the Grant is approved by the Bank Board, and/or before Project effectiveness. Specific Procurement Notices for all goods to be procured under ICB and Expressions of Interest for all consulting services to cost the equivalent of US$200,000 and above will also be published in the UNDB, the Bank's external website, and the national press.

42. ***National Competitive Bidding Procedures***. National Competitive Bidding (NCB) shall follow the Open and Competitive Bidding procedure set forth in the Ethiopian Federal Government and Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by the MoFEC dated June 10, 2010, provided, that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the "Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits

& Grants by World Bank Borrowers" (January 2011 and revised in July 2014) (the "Procurement Guidelines") and the following additional provisions:

(a) The Recipient's standard bidding documents for procurement of goods and works acceptable to the Bank shall be used. At the request of the Borrower, the introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against Fraud and Corruption and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Bank.

(b) If pre-qualification is used, the IDA's standard pre-qualification document shall be used;

(c) No margin of preference shall be granted in bid evaluation on the basis of bidder's nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.

(d) Mandatory registration in a Supplier List shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette, or on a widely used website or electronic portal with free national and international access.

(e) Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents;

(f) All bidding for goods and works shall be carried out through a one-envelope procedure.

(g) Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.

(h) The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids shall not be solicited, without the Bank's prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence.

(i) In accordance with para. 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and sub-contractors, agents, personnel, consultants, service providers, or suppliers shall permit the IDA, at its request, to inspect all accounts, records and documents relating to the bid submission and performance of the contract, and to have them audited by auditors appointed by the IDA; and (2) Acts intended to materially impede the exercise of the Bank's audit and inspection rights constitutes an obstructive practice as defined in the para. 1.16 a (v) of the Procurement Guidelines. 72.

(j) **Standard Bidding Documents (SBDs) for NCB:** The FPPA's SBD will be revised to take into account the above exceptions and the revised documents will be agreed with the Bank. The Project's procurement manual will include as an annex revised SBDs that will be applicable for the Project. As an alternative the Bank's standard bidding documents can also be used

**Procurement Capacity and Risk Assessment**

43. Procurable items under the grant will include consultancy services for TA and other studies, smaller value goods and non-consultancy services contracts procurements for office supplies and institutional capacity building, workshops and trainings. The Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility is the owner and beneficiary of the Grant while the MoFEC Finance and Procurement Directorate (FPD) will handle the procurement of the Grant as the beneficiary unit has no procurement unit on its own. Though it manages all procurement activities of the ministry, the FPD of the MoFEC has no experience implementing Bank-financed project procurement. At the moment, the Channel One Coordinating Directorate of MoFEC manages procurement activities for projects financed by the Bank and other DPs. Therefore FPD is new for Bank-financed project procurement.

44. As part of Project preparation, the Bank undertook a procurement risk assessment of the project implementation arrangement. Though the beneficiaries of the grant is the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility, the Grant procurement management will be handled by FPD of MoFEC and the assessment covered the procurement capacity of FPD. The assessment concluded that the procurement risk under the Project is High.

45. ***Procurement Legal Framework.*** In Ethiopia, Federal budgetary institutions (like MoFEC), public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009 issued September 9, 2009. The proclamation is further detailed in subsequent directives (issued June 2010) and secondary procedural procurement documents (SBDs, Standard Requests for Proposals (SRFPs) and Procurement manual). The Proclamation establishes the FPPPA as a responsible body for procurement regulatory function at Federal level. The Nine regional states and two City administrations of the Federal Government do have their own procurement proclamations and directives, which are basically drafted using the federal procurement legal documents, as a prototype. The Ethiopian Federal Public Procurement legal framework is based in the United Nations Commission on International Trade (UNCITRAL) Model Law for Public Procurement and is generally acceptable.

46. ***Accountability, Internal Manual of the Procurement Process.*** Consistent with the FPPA directives, there are defined responsibilities and delegation of authority within the FPD. In accordance with the GoE procurement rules, the FPD has its own Bid Endorsing Committee which is delegated to give final decision on procurement decisions above the stated threshold. The procurement decision process follows GoE procurement directives. However, as happens across most government agencies, officials involved in Bid Endorsing Committee members do not have standard time to make procurement decisions, and the accountability for delay is loose. There is an operations manual for the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility and this manual has limited generic coverage for procurement that needs substantive qualifications to be used for Bank-financed project procurement.

47. ***Staffing.*** FPD mainly undertakes smaller operational procurement for the MoFEC, while major and bulk procurement of the MoFEC is procured through the Federal Public Procurement and Assets Disposals Services on framework contracts arrangement. The FPD has seven procurement staff whose qualifications vary between 2$^{nd}$ degree and diploma levels. All of them have more than five years' experience in procurement, but none of them have experience in Bank

financed project procurement. Based on the number of contracts the directorate procures annually, their number is just adequate to deal with current procurement demand from on-going projects. As none of them have experience in Bank financed procurement, intensive training on Bank's procurement documents and assignment of consultants in the form of TA for hands-on support may be required during early stage of the Grant procurement implementation.

48. ***Procurement planning.*** FPD has limited experience of preparing and updating Procurement Plans to capture changes in need and planned procurement lead-times/milestones. Past experience shows that FPD has limited practice of consolidating procurement requirements and procuring through competitive methods, though this is a requirement in the procurement rule of the GoE. Procurement Plan preparation is not supported with assessment of supply market and associated risks management. The FPD has no experience of consultant selection involving international consultants. It is recommended that FPD needs to receive close support and guidance from technical experts of the end beneficiaries (UN agency and Regional economic cooperation & CRGE facility) on crafting of ToRs, Shortlisting, Request for Proposal (RFP) drafting, Technical proposals evaluations and contracts negotiation in selecting consulting firms.

49. ***Bidding documents, short-listing, and evaluation criteria.*** The FPD uses the national SBDs for procurements under NCB procedure. The FPD needs to modify the national SBD for NCB to accommodate the Bank's exceptions. Major challenges are foreseen in preparation of technical aspects of the ToR, RFPs and bidding documents. The end user's close support and TA in this regard is very important. The use of Bank's standard procurement documents for international suppliers and consultants' selection should be supported by TA consultants.

50. ***Evaluation and Award of contract.*** Given that the Project will involve more consultancy services selection, successfully dealing with the complete cycle of consultancy service selection process is expected to be a challenge. Consultants will need to support technical beneficiary departments, prepare ToRs in a timely manner, and be involved in the evaluation process (mandatory). The current practice is that evaluations are carried out by ad-hoc technical committees comprising of members having technical expertise. There is a tender endorsing committee comprising of five members. The FPD has no experience in using the Bank's standard evaluation template to systematically include essential information for decisions. Generic shortcomings are expected – including technical evaluations being mechanically oriented with undue emphasis on rigid application of criteria or specifications stated in the bidding documents without applying professional judgment on level of variances; these could substantially affect the outcome of the procurement process.

51. ***Contract Management and Administration***. Though the Project will involve small value contracts, the assessment indicates that contract management is the most challenging aspect in the FPD's procurement cycle management. Past experience shows that the FPD has limitations in dealing with contract management issues. It fully depends on supervision consultants, with no or limited role being played by the client. Adequate mechanisms are not in place for procurement and contract monitoring. Use of the procurement plan as a procurement monitoring tool is very minimal. Contracts were not monitored to ensure timely delivery and payment. The FPD team needs to be very conversant with the contractual obligations of the parties and contractual issues need to be resolved timely and properly. To strengthen the FPD's contract management capacity, it is recommended to hire a contracts administration officer who will set up a contract monitoring

system, follow up contract progresses, and provide advice to deal with contract issues in a timely and following contractual provisions and remedies.

52. ***Procurement oversight and complaints-handling systems***. The system is in place but implementation requires significant improvement. The FPD reported that the directorate follows the procurement complaint resolution procedures set in the FPPA's directives and reported that there has been no experience in terms of complaint receipt and handling. This situation may be related to lack of confidence by the business community that complaints either may not be fairly addressed or the business community may fear retaliation and this is a concern.

53. ***Record Management System.*** FPD maintains adequate procurement records through assigned staff responsible for handling procurement records. However it is difficult to easily locate procurement records including accessing approved procurement plans. There is a need to develop a system that allows one to easily locate and retrieve relevant records. Moreover, the documents are kept in the same office where day to day procurement activities are conducted with clients and suppliers, and this makes the records vulnerable for access to unauthorized persons. In particular, opened bid documents that are ready for evaluation constitutes a risk when exposed to access to unauthorized persons. Therefore the record management system needs improvements in terms of having a record retrieving system and ensuring adequate protection from loss and unauthorized access.

**Procurement Risk Management Plan:**

**Table 2. Procurement action plan**

| **Issue/Risk** | **Severity and impact on project** | **Mitigation Measure** | **Responsible and time frame** (all actions to be taken within three months after grant approval) |
|---|---|---|---|
| FPD staff has no prior experience in working on Bank Financed project procurement | High | 1. Induction of familiarization training on Bank procurement procedures and documents;<br>2. TA consultant (ICB) be assigned during early implementation stage; | 1. Bank team<br>2. FPD/client |
| Less quality of procurement plan and inadequate implementation tracking | High | 1. Provision of training on procurement plan preparation and its implementation.<br>2. Extended hands-on support through use of TA to support the client | 1. Bank team<br>2. FPD/client |
| Inadequate record management system | Substantial | 1. Keep records in safe and secured place without exposure to unauthorized personnel<br>2. Establish record retrieving system | FPD/client |
| Delay in TORs, specifications and Inadequately prepared bidding documents /RFPs | Substantial | 1. Develop accountability framework with defined business standard, and coordinate beneficiary technical departments (the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility)<br>2. Involve qualified technical experts (Consultants) with similar experience to prepare of technical specifications and functional requirements of bidding documents, and ToRs | FPD/client |
| Staff of FPD has no experience in selection of consultants | High | 1. Procurement consultant to be recruited;<br>2. Training to be provided | 1. FPD/client<br>2. Bank team |
| Inadequate contract management practice | Moderate | 1. Training to be provided on basics of contracts administration;<br>2. The user department (the Directorate of UN Agency and Regional Economic Cooperation & CRGE Facility) to involve fully. | 1. Bank team;<br>2. FPD/client |

**Applicable Procurement Methods and Thresholds:**

54. ***Applicable Procurement Methods.*** Selection of procurement methods shall be in accordance to the Bank's guidelines stated above and shall be indicated and agreed for each of the procurement packages in the respective procurement plans for the Project.

55. In view of the above, procurement of goods and services above the stated thresholds shall be undertaken through ICB procedure using the Bank's latest Standard Bidding Document. Procurement of Goods and Non-Consulting Services which are below the ICB threshold indicated in table 2, below, can be procured through the National Competitive Bidding Procedure. Procurement of off-the-shelf goods and commodities of small value contracts of less than US$100,000 may be procured using Shopping procedures in accordance with paragraph 3.5 of Bank Guidelines. Procurement of Goods and non-Consulting services under Direct Contracting shall be procured in accordance with paragraph 3.7 of the Bank's Guideline.

56. ***Selection of Consultants*** shall be carried out using Bank's latest Standard Request for Proposal. Consulting firms for services estimated to cost more than US$150,000 equivalents will be selected through Quality and Cost Based Selection (QCBS) method. Contracts with consulting firm services estimated to cost less than US$ 150,000 equivalent may be selected using Selection Based on Consultants' Qualification method as well as QCBS method. Individual consultants' will be selected on the basis of their qualification and in accordance with Section V of the Bank's Guideline for Selection and Employment of Consultants. Consulting services for audits and other services of a standard or routine nature may be procured using the Least Cost Selection Method while Single Source Selection may be used when justified in accordance with paragraph 3.8 of the Bank's Guideline. For consulting services of value less than US$200,000 equivalent, shortlists may comprise entirely of national consultants in accordance with paragraph 2.7 of the guideline. However if the consultancy service is for Engineering and Contract Supervision, shortlists may comprise entirely of national consultants for values up to US$300,000.

57. ***Use of the consultancy services of Government-owned Universities or research centers.*** Government-owned entities are neither legally nor financially autonomous. Thus, under ordinary circumstances they will not be eligible to participate in World Bank financed projects as consultants. However, as this Project is a unique approach and may require lots of innovations, local knowledge and flexibility, some Government-owned universities and research centers may possess the requisite expertise and accumulated local practices in investment planning area. Therefore, their participation is considered to be critical due to their unique local research knowledge and experience in research and planning works. Thus, as an exception to the eligibility in accordance with paragraph 1.11(c) of the Consultants Guidelines, local universities and research centers will be allowed to participate as consultants in this initiative on a case-by-case basis whenever their participation is justified that they can add better value to the achievement of the program objectives. The selection of appropriate universities and research centers will be done competitively. On the same basis, university professors or scientists from research institutions will be contracted individually under this Grant implementation when the need arises.

58. ***Training and workshops.*** Training and workshops will be based on capacity-building needs. Venues for workshops and training as well as purchases of materials for training and workshops will be done on the basis of at least three quotations. The selection of institutions for specialized training will be done on the basis of quality and therefore will use the Qualifications Based Selection method. Annual training plans and budget shall be prepared by the Grant recipient and approved by the World Bank in advance of the training and workshops implementation.

59. ***Operational Costs.*** Expenditures made for operational costs such as fuel and stationery, cost of operation and maintenance of equipment, communication charges, transportation costs and travel allowances for missions that contribute to achievement of the Grant objectives will follow the Government established practices and must be acceptable to the World Bank. Government officials' salaries may not be paid from Project funds, and this is not considered a Procurement issue.

60. ***Prior Review Threshold***. The thresholds for Bank's Prior Review, and for ICB including the maximum contract value for which the shortlist may comprise exclusively National firms in the selection of consultants, are presented in the table below for purposes of guiding the preparation of the initial procurement plan. The procurement capacity of implementing agencies will be reviewed annually and the threshold will be revised according to the improvements or deterioration in the procurement capacity. Additionally, each procurement plan will indicate the number of contracts procured through National Competitive Bidding procedures or selection of consultants having a shortlist of exclusively Ethiopian firms that will be subject to prior review as part of risk mitigation irrespective of the below thresholds.

**Summary of Risk Assessment**

61. **The overall risk for procurement for the Project is rated High**, and the thresholds for prior review for ICB, including the maximum contract value for which the shortlist may comprise exclusively Ethiopian firms in the selection of consultants, are presented in Table 2 for purposes of the initial procurement plan. The procurement capacity of the FPD of MoFEC (procurement implementing agencies) will be reviewed annually and the thresholds revised according to the improvements or deterioration in procurement capacity.

**Table 2. Thresholds**

| **Category** | **Prior Review Threshold (US$)** | **ICB Threshold (US$)** | **National Shortlist Maximum Value (US$)** |
|---|---|---|---|
| Works | ≥5,000,000 | ≥7,000,000 | NA |
| Goods | ≥500,000 | ≥1 000,000 | NA |
| Consultants (Firms) | ≥200,000 | NA | <200,000 |
| Consultants (Individuals) | ≥100,000 | NA | NA |

62. All ICB contracts shall be subject to IDA prior review. All single source and direct contracts above US$200,000 will require World Bank prior review.

**Procurement Plan**

63. A Procurement Plan will be developed for the Project which provides the basis for the procurement methods. This plan will be reviewed and agreed on during grant negotiation and will be available in the Project's database and in the World Bank's external website. The Procurement Plan will be updated in agreement with the World Bank annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

**Frequency of Procurement Supervision**

64. In addition to the prior review supervision to be carried out from World Bank offices, annual supervision missions to visit the Project to carry out post review of procurement actions will be conducted as well.