



The World Bank

THIRD ADDITIONAL FINANCING FOR STRENGTHEN ETHIOPIA'S ADAPTIVE SAFETY NET PROJECT
(P181626)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Feb-2024 | Report No: PIDA37390



BASIC INFORMATION

A. Basic Project Data

Country Ethiopia	Project ID P181626	Project Name THIRD ADDITIONAL FINANCING FOR STRENGTHEN ETHIOPIA'S ADAPTIVE SAFETY NET PROJECT	Parent Project ID (if any) P172479
Parent Project Name Strengthen Ethiopia's Adaptive Safety Net	Region EASTERN AND SOUTHERN AFRICA	Estimated Appraisal Date 21-Feb-2024	Estimated Board Date 11-Apr-2024
Practice Area (Lead) Social Protection & Jobs	Financing Instrument Investment Project Financing	Borrower(s) Federal Democratic Republic of Ethiopia	Implementing Agency Third Party Implementer in areas of High Risk of Ongoing Conflict, Ministry of Agriculture

Proposed Development Objective(s) Parent

The Project development objectives are (a) to expand geographic coverage and enhance service delivery of Ethiopia's adaptive rural safety net to improve the well-being of extremely poor and vulnerable households in drought prone communities, and (b) in case of an Eligible Early Response Financing Event ("Eligible ERF Event"), respond promptly and effectively to it.

Components

Adaptive Productive Safety Net
Improve Shock Responsiveness of the Rural Safety Net
Systems, Capacity Development, and Program Management Support

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	200.00
Total Financing	200.00
of which IBRD/IDA	200.00
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Development Association (IDA)	200.00
IDA Credit	200.00

Environmental and Social Risk Classification

Substantial

B. Introduction and Context

Country Context

1. **Despite Ethiopia’s success over the past decade with economic growth and reduction of extreme poverty from 55 percent in 2000 to 25 percent in 2020, the country continues to face major challenges.** Real gross domestic product (GDP) growth is projected by the International Monetary Fund to be 6.1 percent in 2023¹, down from 9 percent in 2019. Armed conflict, back-to-back droughts, and high food prices have contributed to a stagnation and reversal of poverty reduction, increasing the number of poor people by about 410,000 in 2022 only². The poor, who are net consumers of food, remain at high risk of falling into extreme poverty and food insecurity.

2. **Climate shocks are increasing the vulnerability of Ethiopians, particularly the poor.** The cumulative effects of the ongoing drought, the most severe in the last 40 years, have been devastating for Ethiopians, particularly in the pastoral areas of the country. After six consecutive poor or failed rainy seasons, more than 22 million people are estimated to be food insecure, while 11.8 million are said to have experienced significant livelihood losses in drought-affected areas – all due to climate change. At the same time, flooding has tested the resilience of people and infrastructure in other parts of the country. Further disruptions to livelihoods and the economy are likely as climate change projections indicate a rise in mean annual temperatures over time across the range of future climate scenarios, and high levels of uncertainty in future precipitation patterns with a slightly wetter future on average. It is estimated that in Ethiopia, five million people are exposed to an average drought and 250,000 people to an average flood event every year.³

3. **The period since the launch of the SEASN project has been marked by a series of crises.** Even before the project became effective, conflict in Tigray and severe drought in the South and Southeast of the country occurred, which had a detrimental effect on PSNP clients and program implementation. While a peace deal resulted in a cessation of hostilities

¹ International Monetary Fund, 2023. Website, accessed November: imf.org/en/Countries/ET

² World Bank. 2023. Macro Poverty Outlook: Ethiopia http://macropovertyoutlook.worldbank.org/mpo_files/mpo/mpo-am23-eth-scope.pdf

³ World Bank Group (2019). Disaster Risk Profile – Ethiopia ([HERE](#))



in Tigray, there are growing conflicts in other regions, particularly Amhara and Oromiya, with devastating effects on local economies and the lives and livelihoods of people.

4. **The COVID-19 pandemic also resulted in cuts in official development assistance (ODA) by several donors.** This reduction has been compounded by increased competing priorities for development assistance caused by various global crises including the Russian invasion of Ukraine. Reductions in ODA have impacted external financing for the social protection sector globally, including the PSNP. At the time of design of PNSP 5, provisional development partner indicative commitments (not including IDA) for the program amounted to US Dollars (US\$) 986 million. Actual signed commitments have fallen significantly short, and currently total US\$786 (US\$336 million signed multi-donor trust fund (MDTF) contribution plus approximately US\$450 million equivalent of in-kind support from USAID), meaning there is a shortfall in donor financing of approximately US\$200 million.⁴

5. **Program costs have increased because of high inflation and these increases in costs in local currency have not been offset by exchange rates changes.** Ethiopia experienced high inflation after the height of the COVID-19 pandemic; with inflation being significantly higher than global or regional averages. This situation was further compounded by the war in Ukraine which led to increased prices of fuel, fertilizer and food (particularly grain). As a result, the cost of the program in both Ethiopian Birr (ETB) and US\$ has increased since its start.

6. **High inflation disproportionately affects the poor.**⁵ Food price inflation is a major driver of inflation in Ethiopia and poorer households dedicate a higher proportion of their expenditure on food and on cheaper staples which are typically the worst affected by inflation. Furthermore, poor households have often already exploited any coping mechanisms to offset impacts of inflation; they already purchase cheaper food items and are already maximizing income opportunities.

Sectoral and Institutional Context

7. **Social protection has played a key role in Ethiopia's reduction in poverty and is a critical component of the country's long-term development strategy.** Through the GoE's 10-Year Development Plan for 2021–2030, the government recognizes the contribution of social protection to the development goals of the country and commits substantial human and financial resources to maximize the reach of such programs to its poorest and most vulnerable citizens. Today, the GoE aims to finance about one-third of the social protection expenditures while the rest is financed by donors. In 2021, the estimated annual spending on social protection (including pensions but excluding humanitarian assistance, subsidies, and a number of labor market expenditures) represented 5 percent (US\$794 million) of US\$25 billion in general government annual budget (Social Protection Public Expenditure Review 2021).

8. **Ethiopia has been spearheading significant investments in its safety net programs.** The Rural Productive Safety Net Project (P163438) and, more recently, the Urban Productive Safety Net Project (UPSNP; P151712) provide a solid base as a social protection platform with their relatively extensive coverage, productive public work investments to strengthen communities' climate resilience, and extensive efforts to promote economic opportunities and graduation from the programs. The Urban Productive Safety Net project was first launched in December 2016 in 11 cities, financed by an IDA credit of US\$300 million equivalent as well as US\$150 million in government funding. The project provided benefits in the form of cash-for-work and livelihood support to 600,000 urban poor and destitute people (of which 60 percent of which

⁴ Note that USAID contributions to the PSNP is through parallel financing and the exact funding gap depends on their allocation decisions between food transfers and other program components.

⁵ Seid Nuru Ali (2022). The Distributional Impact of Inflation in Ethiopia, Policy Brief, International Growth Centre



were women) in 11 major cities (Addis Ababa and one city per region) of the country. The UPSNP demonstrated large and statistically significant positive impacts on urban poverty and established strong foundations for a broader urban safety net. The successor Urban Productive Safety Net and Jobs Project (UPSNDP) started in 2020 and scaled up the urban safety net to 88 cities, included refugees and has provided significant support for internally displaced populations (IDPs).

9. **The country's multiple crises have led to innovations in the way safety net operations are delivered, including exercising greater flexibility in including different target groups and making delivery systems more agile to respond to emerging situations.** Together, the urban and rural safety net programs cover over 9 million Ethiopians. To respond to the Covid-19 pandemic, the programs suspended the public works requirement to adhere to social distancing practices, making cash payments to beneficiaries temporarily without any conditionalities. The inclusion of refugees and host communities has been piloted under the urban safety net since 2021. To respond to food price increases, both programs increased the level of benefits.

C. Proposed Development Objective(s)

Original PDO

10. The Project development objectives are (a) to expand geographic coverage and enhance service delivery of Ethiopia's adaptive rural safety net to improve the well-being of extremely poor and vulnerable households in drought prone communities, and (b) in case of an Eligible Early Response Financing Event ("Eligible ERF Event"), respond promptly and effectively to it.

Current PDO

11. The PDO remains the same as the original PDO.

Key Results

12. **The progress towards achievement of the PDO will be measured by the following outcome indicators:**

- Number of new woredas in which PSNP systems have been established and are being used for core PSNP payments
- Payments made to core beneficiary households according to the program's performance standards for timeliness (Percentage)
- Percentage of shock responsive transfers made to shock response beneficiaries according to the program's 45 days performance standards for timeliness (Percentage)
- Average number of months that PSNP households report experiencing food shortages in the past 12 months (Months)

D. Project Description

13. **The SEASN project supports the GoE's PSNP which was launched in 2005 and provides food or cash transfers to poor households living in woredas (districts) with high levels of poverty and food insecurity.** The PSNP currently reaches



7.9 million individuals with conditional or unconditional food or cash transfers. Households with 'work-able' adult members are required to work in exchange for these transfers, while households without 'work-able' members receive unconditional 'direct support' transfers. Public works are planned using participatory watershed and rangeland management methodologies with the objective of addressing some of the underlying causes of food insecurity such as environmental degradation, poor road access etc. The program is managed by the GoE through its structures from federal to woreda levels and is supported by thirteen development partners – Austrian Development Agency, Global Affairs Canada (GAC), Danish International Development Agency, European Union, Government of Ireland international development program, Foreign, Commonwealth & Development Office (formerly DFID), German Federal Ministry for Economic Cooperation and Development (BMZ), Embassy of the Kingdom of the Netherlands, Swedish International Development Cooperation Agency, United Nations Children's Fund (UNICEF), United States Agency for International Development (USAID), and World Food Programme (WFP).

14. **The SEASN project was approved by the World Bank's Board of Directors on November 25, 2020, and became effective on March 2, 2021.** Financing allocated to the original project was US\$200 million (IDA-67980 credit) and US\$312.5 million (IDA-D7450 grant). An AF of US\$37.5 million (IDA grant D-9030) from the Crisis Response Window (CRW) was approved on September 20, 2021, to address an already emerging drought crisis, and a second AF in 2022 amounting to US\$350 million of which US\$50 million was also from the CRW. Both AFs had an elevated focus on shock response and food security.

15. **Total IDA financing for PSNP 5 through the SEASN project is US\$900 million, of which US\$800.8 million (approximately 89 percent) has been disbursed.** For the overall PSNP 5, the budget at design was US\$2,283 million, which was later adjusted to US\$2,671 million, due to changes in the macroeconomic context and needs of the program. GoE committed US\$590 million and has so far disbursed US\$247 million equivalent.

16. **SEASN project has made key enhancements to the flagship PSNP 5, in line with the sector priorities of integration, sustainability and modernization.** Additionally, the project has contributed to climate change resilience: 13 percent average increase in crop yields attributable to the PSNP public works program; adaptation: surface runoff reduced which has raised groundwater level; and mitigation: 3.8 percent increase in tree coverage (2005 and 2019), solid waste management in rural areas. With support from the AFs (including from the CRW) the project has also successfully expanded both horizontally and vertically to support households affected by the multiple concurrent shocks. Detailed achievements of the project are in Annex 1.

17. **However, PSNP activities have been severely disrupted in Tigray, Amhara and parts of Oromiya and Afar, due to conflict.** Implementation was paused for more than two years in Tigray due to the conflict and has caused interruptions elsewhere. While operations have resumed in Tigray and Afar, activities in parts of Amhara and Oromiya continue to be disrupted. To make the program more adaptive, it introduced a traffic light system to assess how program operations are affected by conflict and can deploy modified procedures to support a rapid resumption of activities, where possible.

18. **The parent SEASN project is an IPF with PBCs.** Approximately one third of original World Bank financing (US\$150 million) was allocated to PBCs. The choice of the seven PBCs was informed by the need to improve accountability regarding the achievement of key program results, and a recognition of the risks under vast safety net operations.

19. **The AF3 is urgently needed to significantly contribute to bridging the financing gap currently experienced by PSNP 5.** The proposed US\$200 million, combined with further measures to adjust program costs, will contribute considerably



to the bridging of the financing gap of approximately US\$395 million for the remaining two years of the program, while it is hoped that other development partners and the GoE will support in filling the remaining gap.

20. The following are proposed component allocations for AF3.

21. **Component 1: Adaptive Productive Safety Net (AF3: US\$162,3 million equivalent).**

- **Subcomponent 1.1: Public Works.** Financing from AF3 will allow the government to improve budget allocations for strategic capital investments to regions and woredas to allow for varied public works subprojects and maximizing the potential impact of these projects, with priority to climate change adaptation and mitigation.
- **Subcomponent 1.2: Mother and Child Package.** This subcomponent will continue to finance linkages to women and children's development, by supporting government to establish and maintain 50 childhood development centers in 25 selected PSNP woredas in five regions, as defined by the PIM.
- **Subcomponent 1.3: Safety Net Transfers to Extremely Poor Households.** The proposed AF3 will finance the wages of approximately 5.9 million public works beneficiaries, and transfers to direct support beneficiaries. The AF3 will also help ensure that the loss of cash transfer purchasing power is mitigated by providing support to the increase in the wage rate adjustment and safety net cash transfers by 34 percent. Financing from this AF will also be used to hire a third-party implementer (TPI) to provide cash transfers, if needed, as has been the case for existing conflict zones under the current SEASN project.
- **Subcomponent 1.4: Complementary Livelihood Services.** The AF will support 30,000 new livelihoods beneficiaries bringing the total number of beneficiaries to 72,900, by the end of the project. This financing will support life skills, business management, and microenterprise skills trainings, a cash grant, and mentoring and coaching, to establish microenterprises that will support initiation of sustainable livelihoods and exit from the PSNP program.

22. **Component 2: Improve Shock Responsiveness of the Rural Safety Net**

- This AF3 will not include any additional funding to this component.

23. **Component 3: Systems, Capacity Development, and Program Management Support (AF3: US\$37,7 million equivalent).**

- **Subcomponent 3.1 Systems Development.** AF3 will be used to support capacity restoration efforts including: (i) the purchase of Information and Communications Technology (ICT) equipment, vehicles and office furniture; and (ii) training needed to restore community structures and woreda capacity affected by conflict. This AF will also finance the operationalization of a toll-free hotline under development to improve grievance redress mechanisms; as well support the improvement of payments and reconciliation systems, and work towards rolling out further electronic payment opportunities and financial capabilities training, especially for women, through the remaining duration of the program.
- **Subcomponent 3.2 Capacity Building, Management and Administration.** Capacity building and administrative budgets have seen significant cuts due to financing constraints. This AF3 will therefore support



some recovery budgets to prioritize key areas such as the effective functioning of environmental and social commitments, and increased training at the regional and woreda levels to improve project implementation and impacts. This AF will also be used to revitalize and enhance community groups that are part of the PSNP implementing structures (such as the kebele and community food security task force and the kebele appeal committees). The government will develop a Capacity Building Plan based on assessed and prioritized needs, which will be reviewed and approved for financing.

24. **The direct beneficiaries of the AF3 are consistent with the planned beneficiaries of the parent project** – targeted extremely poor households living in rural Ethiopia. Core beneficiaries, approximately 5.9 million across 485 woredas, will benefit from AF3 by continuing to receive their safety net. This project supports 18.8 percent of rural poor in Ethiopia.

E. Restructuring

25. **The GoE has requested the following restructuring for the SEASN project:**

- **Performance Based Indicators.** The restructuring of the parent project will make adjustments to the PBC targets and/or definitions to take into account the impact of the changed context on implementation, as well as implementation experience.
- **Results Framework.** Following the project’s mid-term review and recommendations, the GoE has requested revisions to some results indicators and methodologies of data collection to reflect the complex implementation context and to improve the clarity of some indicators or adjust the data collection protocols.
- **Legal Covenants.** Most of the legal covenants are complied with or in progress of achievement, with the exception of two dated covenants, one delayed and one will not be met; these will be revised as part of the AF3.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

26. **The environmental risk of the project is assessed as Moderate.** Although the public works subprojects are aimed at enhancing the environment and increasing the productive capacity of the natural resource base, they also have the potential for adverse environmental impacts on human populations and/or the biophysical environment if their location, design, or construction do not follow good environmental practices. The environmental risks could arise from site-specific impacts such as (i) disturbance of environmentally-sensitive areas or downstream ecosystems by soil and water conservation subprojects, including flood control, which, despite being intended to improve the environment, might be badly designed or sited; (ii) vegetation removal, erosion or pollution caused by poorly designed or located social infrastructure such as community roads or health posts; (iii) salinization, water logging or pollution resulting from small-



scale irrigation subprojects including the use of agro-chemicals; (iv) disruption of downstream ecosystems or water flows by water subprojects. Environmental risks from the livelihoods sub-component arise from the potential cumulative effects of large numbers of households in the same area all undertaking the same activities. These environmental risks are related to impacts that might occur such as (i) degradation caused by overgrazing resulting from animal-fattening; (ii) loss of endemic tree species due to tree-cutting for the manufacture of furniture or artifacts; (iii) pollution from poultry rearing using drugs or chemicals; (iv) deforestation and reduction in local energy sources due to trading in fuelwood, poles or charcoal; (v) deforestation due to a reduction in energy resources resulting from the processing of agricultural residues for animal feed production. Public works subprojects activities, though small, could cause noise, air, and water pollution, and increase project workers and communities' exposure to health and safety impacts. Potential occupational health and safety risks may result from the construction and rehabilitation activities related to public works and livelihoods support. These environmental risks will be managed through the project's ESMF procedure which includes site-specific mitigation measures.

27. **The social risk remains Substantial.** Similar to the parent project, the potential risks could be related to social exclusion from the project benefits as well as sexual exploitation and abuse related to targeting. Project workers and respective communities could also be vulnerable to security and SEA risks in the case of implementation in conflict affected areas. The capacity of program implementers also needs strengthening to apply the ESF standards. This AF3 is expected to contribute to strengthening the E&S risk management capacity by allocating need-based capacity building budget for the same. It is also expected to improve the grievance mechanism by financing a toll-free hotline. The ESMF prepared for the parent project will continue to be applied to address the risks.

F. Implementation

Institutional and Implementation Arrangements

28. **The proposed AF will be implemented through the institutional structures of the wider PSNP already agreed upon in the parent project supports and under implementation.** The Ministry of Agriculture (MoA) through the FSCO, will continue to lead overall coordination and management of the program and project, together with other partners, including at the regional and woreda levels, as defined in the PIM.

29. **The PSNP will continue to leverage its strong development partner coordination, facilitated through a donor working group.** Arrangements of PSNP donor coordination in line with the Paris Declaration on Aid Effectiveness will continue with the donor coordination team, financed through the multi donor trust fund (MDTF), supporting overall coordination.

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