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Report No: PAD4750

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON

PROPOSED CREDITS IN THE AMOUNT OF

SDR 1.9 MILLION (US$2.5 MILLION EQUIVALENT)

TO THE REPUBLIC OF DJIBOUTI

EUR 132.6 MILLION (US$140 MILLION EQUIVALENT)

TO THE REPUBLIC OF KENYA

PROPOSED GRANTS IN THE AMOUNT OF

SDR 83.2 MILLION (US$115 MILLION EQUIVALENT)

TO THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

SDR 50.7 MILLION (US$70 MILLION EQUIVALENT)

TO THE FEDERAL REPUBLIC OF SOMALIA

A PROPOSED GLOBAL RISK FINANCING FACILITY GRANT

IN THE AMOUNT OF US$28 MILLION TO THE PTA REINSURANCE COMPANY

AND A PROPOSED HORN OF AFRICA UMBRELLA PROGRAM MULTI-DONOR TRUST FUND GRANT

IN THE AMOUNT OF US$5 MILLION TO THE REPUBLIC OF DJIBOUTI

FOR A

DE-RISKING, INCLUSION AND VALUE ENHANCEMENT OF PASTORAL ECONOMIES IN THE HORN OF AFRICA PROJECT

May 27, 2022

Finance, Competitiveness and Innovation Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective March 31, 2022

Currency Unit =	
US$1 =	SDR 0.72

FISCAL YEAR

Djibouti, Somalia: January 1 - December 31

Kenya: July 1 – June 30

Ethiopia: July 8 – July 7

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Boutheina Guermazi
Regional Director:	Asad Alam
Practice Managers:	Niraj Verma, Djibrilla Issa, Olivier Mahul
Task Team Leader:	Caroline Cerruti

ABBREVIATIONS AND ACRONYMS

AFC	Agricultural Finance Corporation
AfDB	African Development Bank
AWPB	Annual Work Plan and Budget
ARC	African Risk Capacity
CBA	Cost-benefit analysis
CBR	Cost-to-Benefit Ratio
CGAP	Consultative Group to Assist the Poor
CLE	*Centre for Leadership and Entrepreneurship (Centre Pour le Leadership et l'Entreprenariat)*
CoG	Council of Governors of Kenya
COMESA	Common Market for Eastern and Southern Africa
CPF	Country Partnership Framework
CSC	Civil Service Commission of Somaliland
DA	Designated Account
DBE	Development Bank of Ethiopia
DFIL	Disbursement and Financial Information Letter
DIRISHA	Drought Index-insurance for Resilience in the Sahel and Horn of Africa
DRFIP	Disaster Risk Financing and Insurance Program
DRIVE	De-Risking, Inclusion and Value Enhancement of Pastoral Economies
EAFS	External Assistance Fiduciary Section
E&S	Environmental and Social
ESCP	Environmental and Social Review Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
EU	European Union
FCV	Fragility, Conflict and Violence
FGS	Federal Government of Somalia
GBV	Gender Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRID	Green, Resilient and Inclusive Recovery
GRiF	Global Risk Financing Facility
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HoA	Horn of Africa
IBLI	Index-Based Livestock Insurance
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management System
IFR	Interim Financial Report
IGAD	Intergovernmental Authority on Development
ILRI	International Livestock Research Institute
KDC	Kenya Development Corporation

KLIP	Kenya Livestock Insurance Program
LLRP	(Ethiopia) Lowlands Livelihood Resilience Project
LVC	Livestock Value Chains
M&E	Monitoring and Evaluation
MFIs	Microfinance Institutions
MoA	Ministry of Agriculture
MoALFC	Ministry of Agriculture, Livestock, Fisheries and Cooperatives of Kenya
MoF	Ministry of Finance
MoTRI	Ministry of Trade and Regional Integration of Ethiopia
MoU	Memorandum of Understanding
NBE	National Bank of Ethiopia
NDVI	Normalized Difference Vegetation Index
NGOs	Non-Governmental Organizations
NQIDP	National Quality Infrastructure Project
PDO	Project Development Objective
PCU	Project Coordination Unit
PCM	Private Capital Mobilization/Mobilized
PFM	Public Financial Management
PIM	Project Implementation Manual (operations manual)
PIU	Project Implementation Unit
PPP	Public Private Partnership
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
PTC	Project Technical Committee
QCBS	Quality and Cost-Based Selection
RPLRP	Regional Pastoral Livelihoods Resilience Project
(RU)SACCOs	(Rural) Saving and Credit Cooperatives
SBD	Standard Bidding Document
SDL	State Department of Livestock of Kenya
SoBs	Somalia Bureau of Standards
SOE	Statement of Expenditure
SomReP	Somalia Resilience Program
SPD	Standard Procurement Document
SQCC	Somaliland Quality Control Commission
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
ToR	Terms of Reference
TLU	Tropical Livestock Units
USAID	US Agency for International Development
VMGs	Vulnerable and Marginalized Groups
VSLAs	Village Savings and Lending Associations
WBG	World Bank Group
WFP	World Food Program
WTO	World Trade Organization

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Djibouti, Ethiopia, Kenya, Somalia	De-risking, inclusion and value enhancement of pastoral economies in the Horn of Africa	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P176517	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[√] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[√] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[√] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
23-Jun-2022	30-Sep-2027
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)
Package of financial services for climate resilience	179.00
Livestock Value Chains and Trade Facilitation	181.50

Organizations

Borrower:	Federal Democratic Republic of Ethiopia Republic of Kenya Ministry of Finance of Somalia Republic of Djibouti PTA Reinsurance Company (ZEP-RE)
Implementing Agency:	Ministry of Trade and Regional Integration of Ethiopia Ministry of Agriculture, Water, Fisheries, Livestock and Maritime Resources of Djibouti Federal Republic of Somalia State Department of Livestock of Kenya Ministry of Agriculture of Ethiopia Kenya Development Corporation PTA Reinsurance Company (ZEP-RE)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Development Association (IDA)	327.50
IDA Credit	142.50
IDA Grant	185.00

Non-World Bank Group Financing	
Trust Funds	33.00
Disaster Risk Financing and Insurance	28.00
Horn of Africa Initiative Umbrella Trust Fund	5.00
Commercial Financing	72.00
Unguaranteed Commercial Financing	72.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Djibouti	2.50	0.00	0.00	2.50
National PBA	2.50	0.00	0.00	2.50
Ethiopia	0.00	115.00	0.00	115.00
National PBA	0.00	38.00	0.00	38.00
Regional	0.00	77.00	0.00	77.00
Kenya	140.00	0.00	0.00	140.00
National PBA	47.00	0.00	0.00	47.00
Regional	93.00	0.00	0.00	93.00
Somalia	0.00	70.00	0.00	70.00
National PBA	0.00	23.00	0.00	23.00
Regional	0.00	47.00	0.00	47.00
Total	**142.50**	**185.00**	**0.00**	**327.50**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025	2026	2027	2028
Annual	0.00	20.00	50.00	50.00	100.00	100.00	7.50
Cumulative	0.00	20.00	70.00	120.00	220.00	320.00	327.50

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
Finance, Competitiveness and Innovation	Agriculture and Food, Fragile, Conflict & Violence, Social Protection & Jobs

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	High
9. Other	
10. Overall	High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Ethiopia, Djibouti, Kenya, Somalia financing agreements: The Recipient shall establish a Project Steering Committee and a Project Technical Committee with mandate, composition and resources satisfactory to the Association within 3 months of the effective date.

Sections and Description
Ethiopia financing agreement: No later than one month from the Effective Date, MoA and MoTRI shall enter into a Memorandum of Understanding which shall be maintained throughout implementation of the Project, for purposes of setting out the implementation roles and responsibilities of MoA and MoTRI under the Project.

Sections and Description
Ethiopia financing agreement: Within six months from the Effective Date, the Recipient shall hire an accountant for the PCU in MoA, under terms of reference and with qualifications and experience acceptable to the Association

Sections and Description
ZEP-RE grant agreement and project agreement:
Within three months from the Effective Date, the Recipient shall designate an accountant, with terms of reference satisfactory to the Bank, to be responsible for the financial management

Sections and Description
ZEP-RE grant agreement and project agreement:
Within three months from the Effective Date, the Recipient shall have in place staff in each of the Participating Countries to liaise with the respective Project implementing agencies of the Participating Countries and to provide regular reporting to them

Conditions

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Financing agreements for Djibouti, Ethiopia, Kenya, Somalia; grant agreement for ZEP-RE : The Recipient and the Project Implementing Entity have adopted the Part 1 Project Implementation Manual in accordance with the provisions of Section I.B.1 of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Grant Agreement for Djibouti, financing agreements for Ethiopia, Kenya, Somalia : The Recipient has adopted the Part 2 Project Implementation Manual in accordance with the provisions of Section I.B.2 of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	IBRD/IDA	Financing Agreements for Djibouti, Ethiopia, Kenya, Somalia: The Subsidiary Agreement between the Recipient and Project Implementing Entity has been executed and delivered in accordance with the provisions of Section I.D of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Financing agreements for Djibouti, Ethiopia, Kenya, Somalia; grant agreement for ZEP-RE: The Project Implementing Entity has adopted and disclosed the ZEP-RE ESMS.
Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Grant agreement for Djibouti, financing agreements for Ethiopia, Kenya, Somalia: The Recipient has adopted and disclosed the Environmental and Social Management Framework and the

		updated Stakeholder Engagement Plan in form and substance acceptable to the Association [and for Ethiopia, the Resettlement Policy Framework].
Type Effectiveness	Financing source IBRD/IDA	Description Financing agreements for Ethiopia, Somalia, Kenya: The Recipient has disclosed the Social Assessment in form and substance acceptable to the Association.
Type Disbursement	Financing source IBRD/IDA	Description Kenya financing agreement: no withdrawal shall be made for Eligible Expenditures under Category (3) unless and until: (i) the Subsidiary Agreement-KDC has been executed and delivered and is legal binding on the parties thereto; and (ii) (A) the Recipient has furnished a draft of its ESMS; (B) the Association has notified the Recipient of its approval of the Part 2.1(c) ESMS; and (C) the Recipient has adopted and disclosed the Part 2.1(c) ESMS approved by the Association.
Type Disbursement	Financing source IBRD/IDA	Description Somalia financing agreement : no withdrawal shall be made for Eligible Expenditures under Category (4), if Part 2.1(c) is being implemented by a financial intermediary, unless and until: (i) the Recipient has furnished a draft of its ESMS, prepared in accordance with terms of reference satisfactory to the Association (ii) the Association has notified the Recipient of its approval of the Part 2.1(c) ESMS; and (iii) the Recipient has adopted and disclosed the Part 2.1(c) ESMS approved by the Association.
Type Disbursement	Financing source IBRD/IDA	Description Somalia financing agreement: no withdrawal shall be made for Eligible Expenditures under Categories (3) unless and until: Somaliland has: (i) executed the Somaliland Subsidiary Agreement setting forth implementation arrangements for Somaliland's Respective Activities under the Project (ii) prepared and formally adopted a Project operation manual for Somaliland's Respective Activities under the Project; and (iii) established the institutional arrangements set forth in the forgoing manual, as shall be required to carrying out Somaliland's Respective Activities under the Project, in a manner and substance satisfactory to the Association.
Type Disbursement	Financing source IBRD/IDA	Description Ethiopia financing agreement: no withdrawal shall be made for Eligible Expenditures under category (3), unless (i) the Association

		has carried out an assessment of the Financial Intermediary and determined that it is acceptable for the Financial Intermediary to implement Part 2.1(c) of the Project; (ii) a subsidiary agreement has been entered into between the Recipient and the Financial Intermediary under terms and conditions satisfactory to the Association.
Type Effectiveness	Financing source Trust Funds	Description Djibouti grant agreement: the Djibouti Financing Agreement has been declared effective by the Bank
Type Disbursement	Financing source IBRD/IDA	Description Ethiopia financing agreement: no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR16,440,000 may be made for payments made up to twelve (12) months prior to the Signature Date
Type Disbursement	Financing source Trust Funds	Description ZEP-RE grant agreement: no withdrawal shall be made: (a) for payments made prior to the Signature Date except withdrawals up to an aggregate amount not to exceed $3 million may be made for payments made prior to this date but up to twelve months prior to the Signature Date, for Eligible Expenditures under Category (3); or (b) for Eligible Expenditures under Category (1) unless and until at least one of the Recipient Financing Agreements has been declared effective by the Bank; or (c) for Eligible Expenditures under Category (2) unless and until the Recipient Financing Agreement for Djibouti has been declared effective by the Bank.

I. STRATEGIC CONTEXT

A. Regional Context[1]

1. **The Horn of Africa (HoA) is amongst the poorest and most fragile regions in the world**. The HoA includes the eight countries that are members of the Intergovernmental Authority on Development (IGAD).[2] Most countries in the HoA are poor and extreme poverty is significant in the border regions. One third of the population live below US$1.9 a day.[3] As of April 2022 HoA countries were hosting 4.5 million refugees or people living in refugee-like situations.[4] There is a high and rising level of undernourishment in the region, amounting to 27 percent of the regional population and expected to grow to 34 percent by 2030.

2. **Several countries have come together to strengthen regional cooperation and address global challenges within the "Horn of Africa Initiative"**. These are Djibouti, Eritrea, Ethiopia, Kenya, Somalia and Sudan with a total area of around 2.5 million square kilometers, a population of 230 million and a combined gross domestic product (GDP) of around US$243 billion. The Initiative is currently supported by the African Development Bank (AfDB), the European Union (EU) and the World Bank Group (WBG). Over 70 percent of the population live in rural areas, where poverty is concentrated. The population of the five countries is expected to grow to around 250 million by 2030. The sub-region has shared social and ethnic kinship, historical trade, and cultural affiliations with the rest of the world and has some of the oldest and complex civilizations.

3. **The HoA has vast rangelands, with a large pastoral and agro-pastoral population**. In the eight HoA countries, one fifth of the total population is made up of pastoralists or agro-pastoralists, i.e., around 50 million people (Table 1). Their main source of livelihood is the rearing of livestock, mostly in open grazing rangelands in the semi-arid areas. These rangelands cover most of the land mass in the region (Figure 1).

4. **Pastoralists are among the poorest population groups in the HoA countries**. For example, in Kenya, pastoralist communities score far lower than the country average across the board for all development indicators. In Somalia, the nomadic regions where most pastoralists reside have a staggering 99 percent of people classified as cash income poor. In Ethiopia, the poverty headcount ratio in pastoral areas was 27 percent in 2016 (24 percent nationwide).

5. **The region is exposed to disasters, amplified by climate change, and the recurrent severe droughts are a key factor to poverty and conflicts in pastoral economies**. From 2008 until 2011, a series of large-scale droughts hit the HoA countries. The 2011 drought was particularly severe and led to major humanitarian interventions in Djibouti, Ethiopia, Kenya, Somalia and the Karamoja region of Uganda – over 10 million people required urgent food assistance. Prices for food rose significantly, e.g., grain prices in Kenya were 30-80 percent higher than average. From 2015 until 2017, another series of severe droughts hit the region. The drought in 2015 was induced by the El Niño weather phenomenon and was immediately followed in 2016 by a La Niña-type drought event. By July 2017, close to 20 million people were facing acute food insecurity. Droughts degrade rangelands, deplete livestock, and lead to underinvestment. Underinvestment lowers pastoral productivity and holds pastoralists in a poverty trap. Pastoralists

[1] The source for the data, tables and map in this section is the 2021 study Drought Index-insurance for Resilience in the Sahel and Horn of Africa -DIRISHA, unless otherwise specified. https://hdl.handle.net/10568/114255.
[2] Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Uganda.
[3] Horn of Africa Regional Economic Memorandum 2021.
[4] https://data2.unhcr.org/en/situations/rbehagl

move across national and clan borders in search of greener pastures and the pressure on scarce resources exacerbates conflicts. The cross-border competition for scarce natural resources is highlighted as a key driver of fragility in the HoA Risk and Resilience Assessment. Countries in the region are exposed to other shocks but droughts have historically impacted significantly more people than any other disaster event (Figure 2). Early financial response to drought in Ethiopia, Kenya and Somalia would have saved US$1.6 billion in humanitarian response and nearly US$2.5 billion in avoided losses over a period of 15 years.

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

7. **The proposed De-Risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa Project (DRIVE) presents an innovative approach to address climate change and pastoral poverty**. It uses a regional implementation approach to protect pastoralists against drought with financial services. It follows a people-centric approach to ensure better outcomes for one of the poorest populations in the HoA, the pastoralists. It seeks to mobilize private investment in the pastoral value chains and facilitate the regional livestock trade to ensure pastoralists get more value for their livestock-rearing activities. It will cover Djibouti, Ethiopia, Kenya, and Somalia.

Figure 1: Rangelands in the HoA

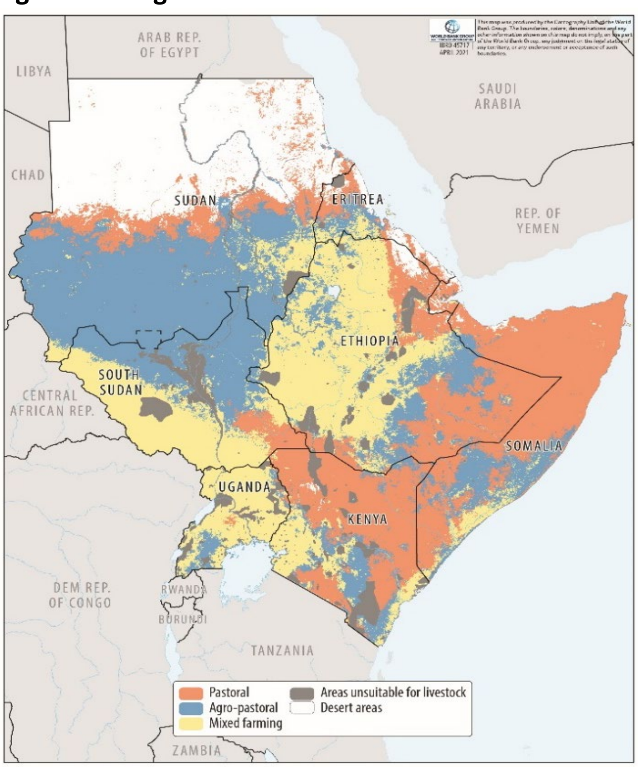


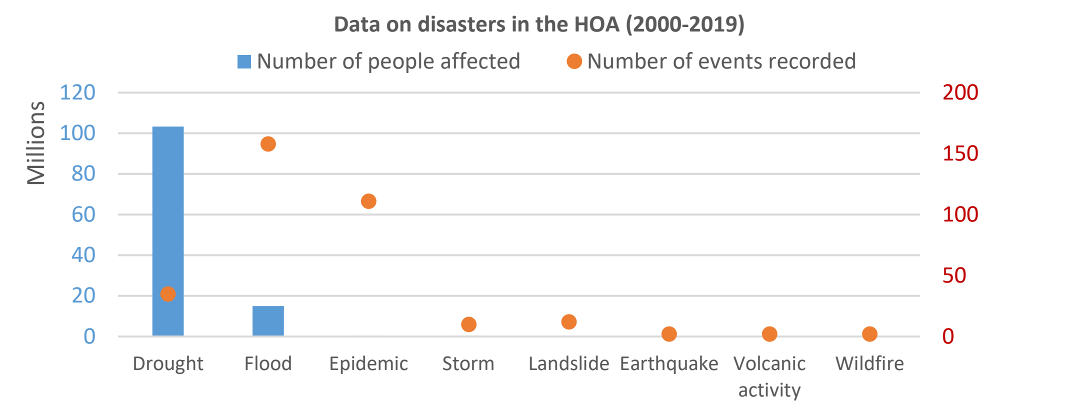
Table 1: Pastoral population in the HoA

Country	Total pop (million)	Of these pastoralists (%)	Total pastoralists (million)
Djibouti	0.9	45%	0.4
Ethiopia	98.1	15%	14.7
Eritrea	5.2	13%	0.7
Kenya	44.3	10%	4.4
Somalia	11.1	60%	6.7
South Sudan	12.2	60%	7.3
Sudan	40.9	20%	8.2
Uganda	40.1	23%	9.2
Total	**252.8**		**51.6**

Table 2: Socio-economic indicators in the HoA

Country	Ag employment (%)	Rural pop (%)	Livestock contribution to GDP	Livestock contribution to Ag GDP
Djibouti	10	22	3.1	82.2
Eritrea	57	N.A.	15-17	35-49
Ethiopia	83	79	16.5	35.6
Kenya	60	72	12	42
Somalia	71	54	40	88.2
South Sudan	87	80	21 (former Sudan)	60 (former Sudan)
Sudan	75	65		
Uganda	72	76	5.2	18
Average	**65**	**64**	**16**	**53**

Figure 2: Cumulative number of events / people affected by disaster events in IGAD countries



*Drought has cumulatively affected **86%** of the people affected by disasters*

Source: World Bank based on data from www.emdat.be

B. Sectoral and Institutional Context

8. **Pastoralism and livestock production are an important source of livelihoods, income, and contribution to GDP for most economies in the HoA**. In most countries, livestock contributes considerably more than one third of agricultural GDP (in Djibouti and Somalia more than 80 percent; average 53 percent for all countries – Table 2), and pastoralists are the main source of meat and milk products. Ethiopia has the largest national livestock herd in Africa with an estimated 128.6 million head of animals in 2018, followed by Sudan (108.8 million animals). Somalia has the largest camel population in the world. Kenya and Uganda also have large livestock herds.

9. **The impacts of the COVID-19 pandemic have been severe and compounded by other shocks**. According to in-country livestock experts, the main impact have been: (i) restrictions on mobility and market closures leading to reduced access to livestock inputs such as vaccines and veterinary services - as per a Mercy Corps study of Somali region in Ethiopia, livestock-keeping households lost about 20-40 percent of their income between March and May 2020 as markets were closed; (ii) border closures leading to restricted options for pastoralists to sell their animals to international markets; (iii) rising food prices; and (iv) reduced provision of agricultural extension services. The impacts of COVID-19 have been exacerbated by the locust invasions and poor rains in 2021.

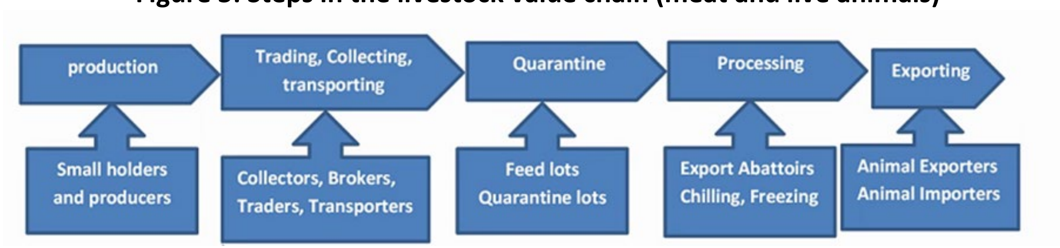
10. **The regional livestock trade is significant but mainly unrecorded and focused on live animals**. Livestock trade represents one of the few economic success stories in the Horn of Africa. Annual exports from the Horn are estimated at close to US$1 billion.[5] Around 50 to 60 percent of livestock from northern Somalia (including Somaliland) are informally sourced from Ethiopia and they often follow trade corridors based on clan relations. This informal cross-border trade is vital to the formal export business in Somalia, which exports more than four million live animals in some years. The destination market is mainly the Middle East and is concentrated in the annual Haj season. The trade also contributes to a large import business, as many export traders either sell foreign exchange to importers or themselves import food, clothes, and other products through Somali ports. Export trade is an important contributor to food security as the foreign exchange is used to import a range of consumer goods, especially food. Many of these products are then informally traded across the border to Ethiopia and to a lesser extent Kenya. Economic factors

[5] D. Grace and P. Little, Informal trade in livestock and livestock products, 2021. This data includes exports from Sudan.

(cost, custom compliance, waiting times, lack of foreign exchange in formal channels) are considered the main driver of informal trade, but there are also infrastructure, social and institutional factors. This trade is highly vulnerable to disease outbreaks.

11. **The livestock value chains are dominated by traders, with limited benefits going to the pastoral producers**. Livestock sales are often influenced by ethnic and family ties, due to the uncertain business environment, the absence of formal systems of credit enforcement, weak infrastructure, limited market support services and prevalent insecurity in pastoral areas.[6] This is especially the case in Somalia. Pastoral producers are at the bottom of these market chains (Figure 3) and because of grazing needs for their herds, are often distant from key market centers, where they could benefit from higher prices and be less vulnerable to opportunistic middlemen. Beyond problems of special access and high numbers of intermediaries, other reasons explain the limited value derived by producers selling live animals, including: (i) lack of quality infrastructure to trace livestock and ensure standards; (ii) limited resources for disease control; (iii) transport systems (trucking or trekking) which stress animals and lower their weights and thus the price fetched at livestock markets; (iv) poorly timed sales due to lack of feed and food during drought means selling livestock when prices are lowest, rather than selling when rains and livestock prices are good, as a result the quality of the livestock sold does not meet exporters' requirements without the use of holding grounds; (v) lack of public livestock price information resulting in an asymmetry of information between traders and producers (e.g. in Kenya the Garissa livestock market's prices are reportedly double what is offered to the pastoralists). Some of those reasons can be addressed by services and infrastructure, but others are deeply rooted in longstanding selling and marketing practices.

Figure 3: Steps in the livestock value chain (meat and live animals)



Source: Ethiopia Logistics Trade Council

12. **Women are highly engaged in the pastoral economy, as laborers, consumers, and producers, both for markets and their households**. Despite the important role of women in rural economies, few services and solutions respond specifically to their needs and ambitions. Only around 7 percent of extension resources target women and 14 percent of donor resources target smallholder women farmers — provision far less than their proportion of the market. [7] Women are highly vulnerable to climate change, further underlining the importance of improving the resilience of their livelihoods. Due to gendered social norms, and compared to men, women have less mobility, rights, and access to resources, as well as lower access to social capital, productive resources, and technology, affording them less capacity to adapt and diversify their livelihoods. But access alone is not enough; rural women must also get equitable returns from labor and markets. Service providers have opportunities to add value to rural women's lives and livelihoods.

13. **Access to formal financial services and credit for pastoral producers is limited**. Financial institutions operate in pastoral areas, although the main branches are in urban centers and located far from rural livestock markets. In

[6] Horn of Africa Regional Economic Memorandum (HoA REM), 2021.
[7] Consultative Group to Assist the Poor (CGAP), Strategy on Women in Rural and Agricultural Livelihoods, 2021.

Kenya, several banks have established branches in Lodwar, Marsabit and West Pokot. Microfinance institutions (MFIs), savings and credit cooperatives (SACCOs), mobile and agent banking operate in the pastoral areas of Kenya, Ethiopia, and Somalia. Pastoralists participate in Village Savings and Lending Associations (VSLAs) to mobilize their savings and use safe boxes. However, they have limited access to credit from formal financial institutions due to the lack of collateral, lack of commercial business, lack of identification, and difficulty to follow loan defaulters. Poorly timed sales and exposure to drought are a limit to creditworthiness. Pastoral land is communal and cannot be charged as collateral. Pastoralist surveys undertaken in Kenya in 2021 show that 17 percent of men and 6 percent of women surveyed borrow.

14. **Recent technological advances have made it possible for financial services to reach pastoralists in a more accurate and timely way**. Financial sector laws in Ethiopia, Kenya and Somalia are supportive of mobile payments. The Central Bank of Somalia recently licensed the two largest mobile money providers. Pastoralist surveys in Kenya show that while the lack of physical presence of formal financial institution is an impediment to save in pastoral regions, about 40 percent of pastoralists own a mobile phone, and 44 percent of women-headed households save through mobile money. Drought index insurance, using satellite data and mobile accounts to provide quick payouts to pastoralists when the level of pasture falls below a certain level, has been successfully piloted in Ethiopia and Kenya and does not require loss adjusters like traditional insurance. Many pastoral savings groups have been supported by development programs and can be reached with other financial services.

15. **Livestock value chains face a myriad of challenges depending on the country**. In Somalia, the entire system of quality infrastructure to trace livestock and ensure consistency of quality standards is missing which contribute to lower prices for Somalia livestock exports as importing countries need to do additional checks. The Somalia Bureau of Standards was launched in March 2021 with the mandate to address these issues and needs support to establish robust quality infrastructure and promote exports through standards harmonization. In Kenya, there is a disconnect between pastoralists and the end markets, with limited information on livestock prices at different levels, including final destination, and a lack of proper infrastructure. Furthermore, many cattle breeds of pastoralists are not adapted to export markets, the exception being the Boran breed of Ethiopian/northern Kenya which is in high demand internationally. Formal live animal exports from Ethiopia, especially cattle, have decreased in recent years resulting in a loss of export earnings. Ethiopian export abattoirs have difficulty in sourcing livestock from pastoral areas which meet export requirements. Djibouti has invested in a brand-new livestock port terminal with capacity to export 2.5 million heads per year, which operates at 16 percent capacity since the logistics to bring in and handle livestock in sufficient quantity to load ships are yet to be addressed.

16. **While at the global level, livestock is an important contributor to Greenhouse Gas Emissions (GHG), the situation is more nuanced in the Horn of Africa, where pastoralism is the dominant livestock production system**. HoA countries rank amongst the lowest GHG emitters in the world (both in absolute value and per capita). Furthermore, evidence tends to show that pastoralism is inherently more sustainable than high-input, fossil fuel-dependent, intensive, contained livestock production systems. Alternative activities for local communities are often detrimental to the environment (coal mining, poaching, charcoal burning etc.). If extensively grazed livestock are removed, it is not clear what replaces them. Many imagine the return of a ‘wild’ ecosystem, but numerous studies show that wildlife and termites in ‘natural’ systems may produce equivalent emissions, if not more. As a result, the most pressing concern regarding pastoralism in the HoA is more of adaptation than mitigation.

17. **The project will support the climate adaptation of pastoralists and help them extract greater value addition from their livestock.** It will protect them against drought with enhanced access to financial services, strengthen their

inclusion in the livestock value chain, and facilitate the regional livestock trade. Under Component 1, the uptake of savings and insurance products through digital channels will help pastoralists sustain their core breeding stock during droughts, reduce income losses and overgrazing (as pastoralists receive insurance payouts to buy fodder in times of severe drought, and do not need to increase herd size in anticipation of drought-related losses). Under Component 2, the project will upgrade the livestock value chain with better quality infrastructure to enhance the process of "moving up" the value chain from live animals to livestock products, and with trade facilitation and improved logistics. It will link pastoralists to traders and processors through market contracts and improve the quality of the livestock sold. The project will not support industrial livestock production and will aim to enhance the value of pastoralist grass-fed livestock, including through piloting new approaches. The project will target a sub-set of pastoralists, those who are organized in productive groups and are willing to engage in commercial activities. Organized pastoralist groups with regular livestock sales and protection against drought will be more attractive to credit institutions, and access to credit will enhance productivity by enabling pastoralists to invest in livestock related businesses. To ensure the sustainability of the intervention, the project aims to mobilize private investments into the livestock value chain that will create reliable markets and stable prices for pastoralists.

18. **The project will complement on-going interventions on physical and social resilience to strengthen the financial resilience of pastoralists**. Many development partners' interventions enhance the provision of water, fodder, and animal health services in pastoral areas, increase the awareness to shocks, support better rangeland management and business development services to pastoralist groups. The WBG has ongoing operations benefitting pastoralists.[8] The HoA Initiative presents an integrated approach to support resilience in pastoral areas by ensuring access to groundwater (HoA Groundwater for Resilience Project, P174867), protecting against pest and transboundary diseases (Emergency Locust Response Program, P173702) and supporting pastoral production systems (AfDB project on food security). DRIVE will complement the above interventions with access to financial services, mobilization of private sector investment and trade facilitation, targeting pastoralists who are organized in groups and interested in actively engaging in livestock production for trade, in the locations already supported by other development partners.

19. **The project is designed as a regional intervention to benefit from economies of scale, specialization, and to support trade, so that countries gain higher value than each acting alone** (Box 1). Pastoralism is regional in nature, as herders reside along country borders and move within the neighboring countries as they search for pasture and water. The challenges faced by pastoralists are identical requiring the same solutions. De-risking pastoralists with financial services such as drought insurance requires scale, technical capacity, and engagement with international markets to place the risk. Under Component 1, the setting up of a regional platform of services will lower the operational and premium costs, acting as a public good allowing other countries to join when ready. Quality infrastructure requires costly investments into equipment (laboratories) and skills, and for a country like Somalia which has just created its standards agency, it makes sense to leverage on neighboring countries' experience. Regional collaboration supports the harmonization of standards and formal trade among countries. Key livestock value chains (corridors) are regional, and many pastoralist groups and traders already work across multiple borders (for example, Somalis and Borana). All HoA countries are exporting livestock to the same countries in the Middle East and have an interest in addressing non-tariff barriers and marketing collectively. The project will help HoA countries harmonize the implementation of strong quality assurance standards on livestock and livestock products.

[8] Regional Pastoral Livelihoods Resilience Project (P129408), Ethiopia Lowlands Livelihood Resilience Project (P164336), Kenya's Climate Smart Agriculture (P154784) and National Agriculture Inclusive Rural Growth (P153349) Projects, Kenya Social and Economic Inclusion Project (P164654), Somalia Shock Responsive Safety Net for Human Capital Project - (P171346) and Strengthen Ethiopia's Adaptive Safety Net Project (P172479).

Box 1: Why a regional approach?

There are three main reasons for a regional approach:

***i. Peace building**: During drought, pastoralists cross borders, placing increased pressure on scarce resources which can in turn increase the risk of conflict. Through Component 1, pastoralists would be incentivized to save and receive insurance payouts in case of severe droughts to provide fodder and other inputs for their livestock during the early stage of drought, reducing resource competition, overgrazing, and tensions between pastoral communities.*

***ii. Risk pooling**: Component 1 will be implemented by a regional entity, to develop and share a risk market platform, creating economies of scale and reducing operational costs for countries. Discussions with (re)insurers highlighted that to achieve a more competitive placement of the risk, a higher volume of premium is needed. Thus, by coming together to pool risk and approach the (re)insurance market together, the national insurers will achieve reinsurance capacity at a lower price point, improving the financial sustainability of the insurance solution. Achieving this scale would also attract more interest from local financial institutions to provide payment and savings services to beneficiaries. The regional implementer could ensure a more efficient and transparent management of premiums and payouts and support private financial institutions in markets with underdeveloped financial services. Drought is a covariate risk, which may affect large parts of a country, hence the value of a regional approach as reinsurers can use the principle of diversification to offer a reduced price for this risk given the limited correlations with other African and global regions.*

***iii. Quality Infrastructure and Trade**: Modern quality infrastructure can be costly (e.g., testing laboratories, traceability systems etc.), and therefore it makes sense to optimize it along the livestock trade corridors (e.g. by having a single digital certificate from the quarantine centers to the livestock port terminal, and valid at the border post; or by specializing laboratories on processes undertaken for several countries). The live animal trade is eminently regional, and any improvement in logistics requires cross-border coordination. Harmonizing standards on livestock and livestock products through mutual recognition agreements and strengthening the capacity of standards agencies to perform quality assurance will support trade.*

Through a regional approach and its design, the project supports a vital sector for livelihoods in a Fragility, Conflict and Violence (FCV) context, contributes substantially to Climate Co-Benefits, mobilizes private capital and support strong gender outcomes, leveraging technology for financial services and market access.

C. Relevance to Higher Level Objectives

20. **The project is strongly aligned with the World Bank's Africa Regional Integration Strategy and Country Partnership Frameworks (CPF)**.[9] The strategy highlights the importance of leveraging the private sector for investing in regional value chains along key economic corridors and underscores the development of functioning regional markets as part of the strategic priorities. The project supports Pillar 2 on *Promoting Trade and Market Integration - Strengthening of selective regional value chains.* and Pillar 4 on *Reinforcing resilience – agropastoralism*. The project supports Djibouti's CPF for FY22-FY26 to improve access to finance for MSMEs, while enhancing climate resilience and exploiting opportunities for regional integration; Ethiopia's CPF for FY18-FY22 to build resilience in pastoral areas that are frequently affected by drought and to promote structural and economic transformation through increased productivity; Kenya's CPF or FY22-FY27 to focus on closing inequities and consolidate engagement in the North and North Eastern Development Initiative; Somalia's CPF for FY19-FY22 whose learning review indicates that the HoAI provides opportunities for Somalia to benefit from regional economic cooperation and integration, including through infrastructure and investments in Somalia's borderlands.

[9] World Bank Group, Africa Regional Integration and Cooperation Assistance Strategy Update for FY21-FY23 Period, December 2020.

21. **The project is consistent with the World Bank's FCV strategy to address long-term drivers of fragility such as climate change**.[10] It is well aligned with the priority recommendations outlined in the 2021 Horn of Africa Risk and Resilience Assessment, particularly on supporting regional responses to FCV challenges and adopting multipronged approaches to tackle prevention and resilience.

22. **The project supports the World Bank's Green, Resilient and Inclusive Development (GRID) approach**. GRID posits that poverty and climate change are interrelated and need to be addressed simultaneously and systematically. The project follows the people centric approach for the HoA region. Component 1 leverages digital and satellite technology to help pastoralists adapt to climate change and to reduce their exposure to climatic uncertainty and generates adaptation climate Co-Benefits. Instead of relying on humanitarian assistance which arrives too late, pastoralists will receive insurance payouts at the onset of drought allowing them to purchase supplies to keep their animals alive or draw on their savings facilitated under the project for smaller shocks. Component 2 will facilitate private investment into the livestock value chains with a facility to de-risk those investments and one bidding criterion will be climate adaptation or mitigation benefits. Through both components, pastoralists would be able to extract more value from their livestock, have access to reliable markets, reducing the need to maintain large herds, and the associated risk of overgrazing.

23. **The project contributes to the World Bank's Private Capital Mobilization (PCM) agenda**. Component 1 mobilizes the capital of insurance companies who will financially cover the drought risk in return for a premium from countries and pastoralists. Component 2 will aim to mobilize private capital in the regional livestock value chains from private firms, with a facility to de-risk private investment when such investment makes commercial sense but is inherently risky given the target groups it seeks to benefit (pastoralists and agro-pastoralists). Component 2 is accounted for as PCM in the total project costs, and Component 1 is reflected as Private Capital Enabled.

24. **Finally, the project complements the International Finance Corporation (IFC) HoA Livestock Sector Approach**. IFC has developed a regional strategy for the HoA to create markets for livestock and livestock products, with a focus on red meat. The World Bank and IFC teams are collaborating on several initiatives under this project, using ongoing IFC advisory activities or investments to inform the public investments or financial support required to mobilize private capital into the livestock value chains.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

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

PDO Level Indicators

- Number of pastoralists and their dependents covered by financial services and capacity building under the project (number, disaggregated for Ethiopia, Kenya, Somalia).
- Percentage of pastoralists that received payouts within 30 days of official announcements of payout by calculation agent.

[10] World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025.

- Number of pastoralist groups supported by the project and connected to markets, including savings groups (disaggregated for Ethiopia, Kenya, Somalia).
- Djibouti - Value of livestock and livestock product trade.
- Ethiopia - Number of live animals exported through Ethiopia Quarantine Centers.
- Kenya - Value of Livestock and Livestock products traded by pastoralists as a result of the project.
- Somalia - Value of livestock and livestock product trade.

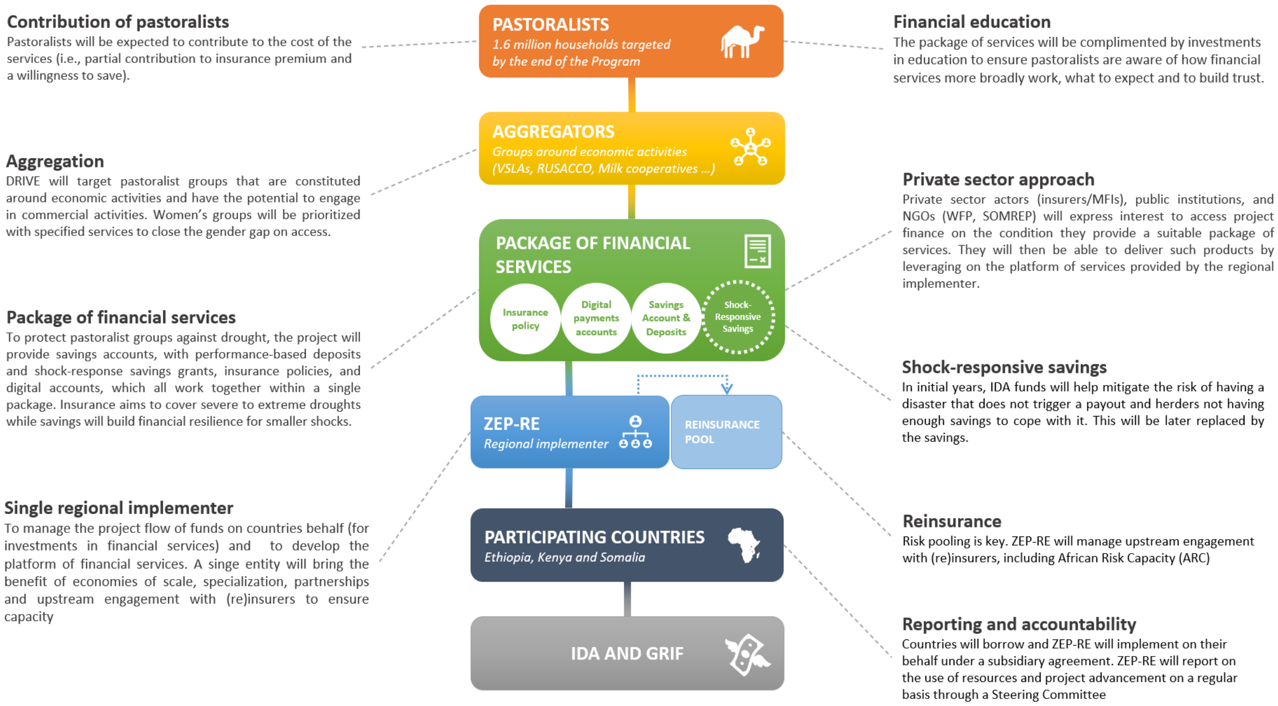
B. Project Components

Component 1: Package of financial services for climate resilience (US$179 million, IDA US$151million, GRIF US$28million)

25. **This Component will support the provision of an integrated package of financial services to build the climate resilience of pastoralists.** Currently, due to the vulnerability of pastoralists to shocks and limited financial awareness, the number of pastoralists engaging with formal financial services is low and insufficient for vulnerable households to cope with major drought shocks without external support. DRIVE will support the delivery of a sustainable package of (i) savings for resilience, (ii) drought index-insurance, (iii) digital accounts and (iv) financial education and awareness creation. The component will be implemented regionally by the PTA Reinsurance Company (ZEP-RE), the regional reinsurance entity of the Common Market for Eastern and Southern Africa (COMESA), owned by member countries; it has been assessed as having the mandate and the capacity for this role. ZEP-RE will partner with the local private and financial sector to design and deliver the products. Savings will enable pastoralists to smooth their income and manage costs of moderate droughts, backed by insurance to provide timely payouts when severe droughts occur, and digital accounts to ensure quick and effective transactions. Over time more resilient pastoralists will be better placed to access credit to expand their productive capacity. DRIVE intends to develop the financial markets and systems for savings and risk finance, with a future phase to leverage and increase access to credit.

26. **Each pastoralist joining the program will have access to a savings account, a drought index-insurance policy, and a digital payment account to pay premiums and receive payouts.** Figure 4 illustrates the structure of Component 1 and the design incorporates key lessons learned. Countries will borrow IDA funds, approve the policies underpinning Component 1, and delegate the project management responsibilities to a regional implementer to drive economic sustainability.

Figure 4. A flow chart of the structure of Component 1*



*NB: Djibouti will participate in Component 1 through a sovereign climate insurance product

27. **Countries will participate through US$151 million of IDA as follows: Ethiopia: US$45 million, Kenya US$75 million, Somalia US$30 million, Djibouti US$1 million.** In addition, the project mobilizes a grant of US$28 million from the Global Risk Financing Facility (GRiF) to be extended and managed by ZEP-RE. Table 3 below provides a breakdown of funds. 10 percent of the IDA funds will be used as an equity contribution to ZEP-RE from each country to cover the start-up costs of the project (Annex 1), and the remaining 90 percent will be used to cover the cost of delivering the financial services, with around 30 percent of the component used for savings incentives, and 60 percent for insurance premium. The IDA will be complemented by US$13 million for premium financing for pastoralists and US$15 million for the implementation costs, including project management, capacity building and awareness creation, fiduciary management, and M&E, both from the GRiF. Djibouti's contribution (US$1 million of IDA, matched by US$1 million from GRiF) will be a premium contribution for a multi -year sovereign climate insurance product to be provided by African Risk Capacity (ARC), since a recent feasibility study[11] highlighted that a microinsurance product was not suitable.

[11] Feasibility of index insurance for livestock in Djibouti. World Bank Group, 2020.

Table 3: Component 1 Funds Breakdown (US$ million)

	Djibouti	Ethiopia	Kenya	Somalia	Total
IDA	**1**	**45**	**75**	**30**	**151**
- Startup costs (equity contribution to ZEP-RE)		4.5	7.5	3	15
- Savings incentives		13.5	22.5	9	45
- Insurance premium	1	27	45	18	91
GRIF (extended to and managed by ZEP-RE)	**1**	**9**	**9**	**9**	**28**
- Implementation costs (incl. capacity building)		5	5	5	15
- Insurance premium	1	4	4	4	13

28. **The target beneficiaries will be pastoralist groups that are constituted around economic activities and have the potential to engage in commercial activities.** At least 250,000 households per year will benefit by the end of the five-year program in Ethiopia, Kenya, and Somalia, representing at a minimum 1.6 million pastoralists and their dependents, with 250,000 digital accounts in use. Of the pastoralist groups benefiting, at least 1,500 VSLAs will be supported and connected to markets. DRIVE will complement existing social protection programs[12] and strengthen their graduation strategies. It will facilitate the transition of more productive pastoralists from the fully funded social protection programs to a program where they are better linked to value chains (Component 2) and are thus able to contribute to savings and an insurance premium. Box 2 provides examples of potential beneficiary groups. Key eligibility criteria will be: group composed of pastoralists whose main economic activity is linked to livestock rearing, and located in areas suitable for the drought insurance product; group structured around economic activities, with the capacity and willingness to engage in commercial activities; group has the willingness to save and contribute to the cost of the package of financial services provided.

Box 2: Examples of potential pastoralist groups to benefit from DRIVE

In Ethiopia, several individual beneficiaries of drought insurance supported by the World Food Program (WFP) are also members of VSLAs. As of March 2021, there were 34 VSLAs having saved a total of about US$15,000. The Ethiopia Lowland Resilience Project aims to support the creation of 500 rural savings cooperatives, which could benefit from the services provided under DRIVE (with de-risking, support to commercialization to better integrate and "move up" into the livestock value chains).

The Somalia Resilience Program (SomReP) is a consortium of seven international non-governmental organizations (NGOs), which came together in 2011 to mutualize their resilience programs in Somalia. SomReP cover most of the territory of Somalia and has in 2022 about 500 VSLAs totaling 10,000 members which could be targeted under Component 1. For the past two years SomReP has been collaborating with the Federal Government of Somalia to explore options for the provision of drought insurance for its beneficiaries.

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

Building Opportunities for Resilience in the Horn of Africa (Boresha) is a consortium of four NGOs working on improving resilience and economic opportunities of the borderland areas between Ethiopia, Kenya and Somalia (the Mandera Triangle). It is targeting 350,000 beneficiaries and supports 250 VSLAs, with programs focused on early warning systems, animal health, economic empowerment, and rehabilitation of rangelands. It has created awareness on drought insurance and promoted a voluntary drought insurance program which has enrolled about 800 livestock holders.

In addition to those, the pastoralist group surveys have identified 975 additional groups in Ethiopia, Kenya, and Somalia, with over 17,000 members to target in the launch phase of DRIVE.

29. **During severe droughts, significant savings are made if funds are quickly accessible to pastoralists, through a package of pre-positioned finance.** Uncertainties in the mobilization of resources and the timing of delivery can generate suboptimal responses for governments and pastoralists. If there is no financial protection at the household level, governments and/or humanitarian communities are the de facto responders. This response often requires evidence of the impacts on the ground and can arrive long after the disaster. This delay increases the overall cost, has irreversible welfare impacts and induces negative coping mechanisms by pastoral households that lead to malnutrition and distress livestock sales. For pastoral communities, who traditionally save by investing in their livestock herds, this support may arrive after the livestock have perished.[13] In contrast, ex-ante savings, insurance and credit can provide funding as a drought intensifies and timely access to funds is possible with the use of mobile money accounts. To reach out to remote pastoral groups, insurers and banks typically partner with mobile money operators, microfinance institutions and local community leaders.

30. **Pastoralist groups will be incentivized to save in a savings account rather than in cash, with the project providing a performance-based savings bonus if they save a certain amount.** Savings accounts allow pastoralists group members to deposit money, keep it safe, and withdraw funds, all while earning interest. Savings can be used for risk reduction or financial protection, with commitment savings for investments and precautionary savings for financial resilience. Each member of the pastoralist group will be encouraged to make savings contributions with the incentive of a performance-based savings bonus, if they meet the deposit amount and regularity requirements. Savings would be constituted around a specific purpose, since for women, evidence shows that savings linked to household expenditure resonate highly. This will be monitored through regular surveys and data collected by the regional implementer, with a target increase in savings contributions by 50 percent. The groups will be linked with formal financial institutions to facilitate the savings. As an additional incentive to take out an insurance policy to back their savings, the premium contribution required by the pastoralists themselves will be reduced to reflect the level of additional savings made alongside financial literacy training on the product.

31. **During the early years of the project this component will include a reserve layer, akin to shock responsive savings, to provide support to the insured in response to moderate drought events.** Given it will take time for pastoralists to build up the level of savings required to help them meet the costs of moderate droughts, partial payments will be made, to complement their savings and mitigate the risk of drought event that does not trigger an insurance payout. The triggers for payouts from the reserve will be objective and pre-agreed to align with the established disaster management processes used within each country (using objective satellite and weather station

[13] A major loss of about 50 percent of their animals during a severe drought typically requires between 5 years (herds of sheep/goats) and 10 years (herds of cattle) to rebuild, during which time they incur major losses of consumption of milk and meat and income from sales of live animals and animal products. World Bank modelling shows lost consumption and sales income over 5 years of around US$1,000 per Tropical Livestock Unit (TLU).

data, food insecurity data, market price data). The data sources and process for triggering this reserve will be defined in the Project Implementation Manual. Over time, as the awareness of the products builds and the savings develop/become more regular, the reserve layer will be scaled down.

32. **A drought index-insurance policy (also called Index Based Livestock Insurance-IBLI) will be used to back their savings in case of severe drought.** These policies are currently operational in Kenya and Ethiopia but not yet at scale. 14 The index insurance product is enabled by satellite technology which monitors the conditions of pasture on the ground. When the level of pasture falls below a certain level, the insurance payout is triggered automatically and paid directly by insurers to pastoralists. It is an asset protection rather than asset replacement product; this means the payouts reflect the cost of feed to keep the core breeding stock alive during a severe drought for one year rather than an asset replacement product where the premium reflects the value of the animal, reducing the cost of the product. 15 This product has the advantage of providing payouts at the onset of a drought, much faster than humanitarian assistance and enables pastoralists to buy fodder, water, and medicines to keep their core breeding stock alive during droughts. To Muslim communities, the product will be offered as Takaful (Islamic insurance). A 2021 technical feasibility study found that it is suitable for 53 percent of the HoA territory based on rangeland and weather conditions (including large parts of Ethiopia, Kenya, and Somalia where the project will operate). Savings and payments accounts will be automatically opened as part of the insurance policy enrollment.

33. **Financial literacy will be provided to pastoralists. Experience from existing drought insurance programs shows that the capacity building of pastoralists and financial service providers is critical to ensure that products meet the needs of the beneficiaries, and to develop trust.** ZEP-RE will coordinate awareness creation activities of pastoralists with the financial service providers; products will be designed to be easily understood and ensure the inclusion of women to address some of the gender gaps identified. ZEP-RE has developed several programs to build farmers financial literacy and increase their savings, and will partner with others, such as African Risk Capacity to deliver capacity building initiatives for all stakeholders. Digital devices will be used to deliver financial literacy programs. An indicator, disaggregated by gender will capture the awareness creation of pastoralists on the financial products offered. The project will partner with CGAP to ensure that the savings and insurance products are meeting the needs of women herders, and the service providers are incentivized to deliver.

34. **The implementation of this component draws on extensive lessons learned from existing drought insurance programs for pastoralists and aims to enhance sustainability with the following features**.

- **Regional implementer providing a flexible platform of services**: To support a cost-efficient implementation, a single regional entity with experience in insurance and financial services will coordinate implementation of Component 1 on behalf of the countries. It will provide a regional platform of wholesale risk infrastructure services (data, product design, training, calculation agent, reinsurance) that can be used by stakeholders in each country (creating economies of scale) and will manage the administration of payouts from the reserve layer. The platform can provide a one-stop-shop with a generic insurance product and training resources, as well as providing more tailored support for local insurers with in-house capacity.[16] This regional approach offers value for money through risk pooling with the creation of critical business size to make it attractive to private

[14] About 20,000 households in Northern Kenya and 30,000 households in the Somali and Oromia (Borana area) regions of Ethiopia currently benefit from it.
[15] For example, in Kenya a premium of US$100 provides protection for 5 TLU (equivalent to 5 cows) worth around US$2,500. For an asset replacement the premium cost would be US$2,500. It is much more economical to protect livestock than replacing it.
[16] For example, WFP noted that for their Satellite Index Insurance for Pastoralists in Ethiopia program they have a well-designed product, but they would like to use the platform to support difficulties in placing their reinsurance requirements with international reinsurers due to foreign exchange availability.

(re)insurers and pooling drought risks into a larger, more diversified portfolio of risk. The implementer will work closely with local and international private sector actors, (re)insurance companies, brokers and agents, banks, MFIs, and mobile money operators, distributors, etc. The countries considered several options, which noted that ZEP-RE was well qualified for the role.

- **Private sector approach to improve last mile delivery**: Private/financial sector actors, public institutions and NGOs will be instrumental in delivering the financial services. They will express interest (potentially in partnership with others) to the regional implementer for access to finance and other enabling services to deliver financial services to the groups. ZEP-RE will evaluate those expressions of interest based on a set of objective and transparent eligibility criteria related to the number of pastoralist groups they intend to protect and the type of services they plan to provide, which will be documented in the Project Implementation Manual (PIM). Overall, this will incentivize innovation for last mile delivery. The use of digital technology can also be utilized by suppliers of feed and fodder to engage with the pastoralists directly, especially following payouts. In Kenya and Ethiopia, the local insurance markets are well developed and will underwrite the risk and retain an increasing amount. In contrast Somalia insurers have no experience in underwriting index insurance. They may need to be supported through a co-insurance pool with regional reinsurers/risk pools acting as direct insurers in the short-term.

- **Contribution of pastoralists**: Pastoralists will be expected to contribute to the costs of the services provided and each country will select the level of premium support to ensure demand and economic sustainability. The project will support a transition to progressively higher coverage of the premium costs by the beneficiaries over time. The countries are currently validating their approach[17] (for example, as the services are more nascent in Somalia and the government contribution may be higher than in other countries). Access to the services will encourage behavioral change from beneficiaries, by shifting some of the responsibility for drought management to the pastoralists themselves. When groups see the benefit of the services to stabilize their production levels during droughts, they will be more inclined to contribute toward the cost.

- **Linkages to reliable markets**: ZEP-RE will engage with livestock processors and exporters to strengthen the linkages of pastoralist groups with a strong structure and productive capacity through market contracts. Those will provide regular income to the groups, improving their capacity to contribute to the cost of financial services.

- **Regular evaluations**: Pastoralist group surveys were undertaken in Ethiopia, Kenya, and Somalia to understand the needs of potential beneficiaries, and they will be repeated at regular intervals (every 12/18 months) to ensure that the packages of financial services meet the needs of pastoralist groups.

Component 2. Livestock Value Chains and Trade Facilitation (US$181.5 million, IDA US$176.5 million, HoA Multi-Donor Trust Fund US$5 million)

[17] The Government of Kenya has indicated an initial premium finance contribution of around 75 percent, reducing over time.

35. **This Component intends to better include pastoralists in the livestock value chains and facilitate trade.** The pastoralist groups that benefit from Component 1 would be linked to investment opportunities under Component 2. The Component will support private investment in the livestock value chains so that pastoral producers can be linked to reliable markets and extract greater value addition from their livestock-rearing activities; the project will target pastoralist groups already formed and Box 4 illustrates the long journey to help those attain a certain level of commercialization. Activities will pay attention to animal welfare and will apply the 2014 IFC good practice note on Improving Animal Welfare in Livestock Operations.

Box 4: Anolei Camel Milk Cooperative in Isiolo (Northern Kenya)

This case study shows (i) the value of production groups, (ii) the time and effort required to better link pastoral producers to markets, and (iii) the concentration of value with the traders as opposed to pastoral producers.

The Anolei Cooperative was created in 1995 and is made up of 60 women rearing camels around Isiolo, 300 km from Nairobi. It was supported by the Food and Agriculture Organisation, the Netherlands, and since 2013 the Swiss Veterinaries. The earlier intervention focused on strengthening the cooperative and training members on quality standards, linking them to small-scale dairy processors in Nairobi, disseminating mobile money, and undertaking gross margin analysis along the chain to identify areas in which the cooperative could reduce costs. The later intervention helped Anolei acquire a refrigerated truck. Before that, milk had to be transported on the roof of public buses. Before that, camel milk had often soured by the time it arrived in Nairobi after hours of travelling under the hot sun on public transport.

The market for camel milk is set to grow as camels are more resistant to drought and camel milk is believed to help with diabetes and autism, and suitable for lactose intolerant people. However mass production is a distant outcome, as suppliers are mainly nomads. The production requires scale, as breakeven is estimated to require 50 lactating camels any point in time, hence the importance of mutualizing production into groups.

Anolei supplies the Somali neighborhood of Eastleigh in Nairobi and the Swiss Veterinaries is developing exports to Kazakhstan. The camel owners receive approximately 60 to 80 Kenyan shillings per litre of milk, and the Eastleigh traders -not member of the cooperative- reportedly sell it for about 200 Kenyan shillings per litre. What would help the Anolei producers increase the value from their activity would be an outlet in Eastleigh to sell their milk directly to the consumers.

Source: Interviews by the team and https://www.biovision.ch/en/news/milk-expressway-from-the-savannah-to-the-city/;https://snv.org/cms/sites/default/files/explore/download/anolei_women_camel_milk_cooperative_in_kenya.pdf.

36. **The value chains supported will depend on each countries' priorities.** The live animal value chain currently exporting to the Middle East is critical for Djibouti, Ethiopia, and Somalia, and supports trade in other commodities that sustain the livelihood of pastoralists. Cross-border exports between HoA countries and the value of annual livestock exports are estimated at around US$1 billion.[18] In Kenya and to some extent Ethiopia, the focus will be on value addition through livestock products (primarily red meat) and targeted markets will both be domestic and export. Rising domestic markets are an opportunity since moving from live animals to transformed product export may face resistance from importing countries and will require diversifying export markets beyond the Middle East. The animal feed/fodder value chain will be supported in all countries and pastoralists will be incentivized to engage in fodder production and conservation, as a way to mitigate overgrazing in times of drought. The milk value chain is mainly domestic, and women and youth groups may be supported in this chain to improve their productivity.

[18] Catley, A., J. Lind, and I. Scoones. 2013. *Pastoralism and development in Africa: Dynamic change at the margins*. Routledge.; Little, P., W. Tiki, and D. Debsu. 2015. Formal or informal, legal or illegal: The ambiguous nature of cross-border livestock trade in the Horn of Africa. Journal of Borderlands Studies 30 (3): 405–421.

37. **Three types of intervention are contemplated and will be tailored to the needs of each country.** Component 2 is intentionally designed to complement existing interventions on pastoral production systems by facilitating livestock trade and mobilizing private investment into the livestock value chains. Countries will participate in this component as follows: Djibouti US$6.5 million (US$5 million through the HoA Multi-Donor Trust Fund [MTDF] and US$1.5 million IDA), Ethiopia US$70 million, Kenya US$65 million, and Somalia US$40 million. Annex 2 details the proposed interventions by country, and how they strengthen the regional livestock trade corridors.

a. **Upgrading quality infrastructure**. The project will support capacity building and equipment to ensure compliance of livestock and livestock products with export standards. Quality infrastructure refers to public goods of testing facilities, traceability systems, certification services, inspection services and quarantine systems. It is critical to enable formal trade and enhance the quality of livestock and livestock products, to export higher value processed products (meat). Quality infrastructure will be the focus of the project in Somalia and to a lesser extent in Ethiopia and Djibouti. Their quality standard agencies will benefit from in depth-capacity building from international firms (contracts covering all countries will be pursued), and the project will facilitate peer-to-peer learning between all those agencies, building on the existing collaboration between the Somaliland Quality Control Commission and the Ethiopian Standards Agency. Capacity building will also include livestock traders, exporters, investors, and local communities to facilitate the implementation and compliance of standards. The project will also support the operationalization of Mutual Recognition Agreements[19] in the HoA.

b. **Trade facilitation and trade logistics**. A significant portion of the live animal trade is unrecorded, which points to issues of costs, customs, or lack of efficient infrastructure to enable formal trade. The project will strengthen quarantine facilities and their efficient linkages to ports with digitization of export and sanitary certificates; it will also improve the logistics for the transit of live animals. The analysis of the trade corridor between Ethiopia and Djibouti provides useful lessons for the Ethiopia-Somaliland corridor: the Djibouti port has invested in a brand-new livestock terminal which has the capacity for handling 2.5 million heads of livestock; Ethiopia seeks to increase their direct exports of live animals through Djibouti, but the supply is not sufficient to load ships to full capacity. Djibouti has a requirement that once live animals cross the border, they have 48 hours to be loaded onto ships. Therefore, in Ethiopia, activities that aim to transport live animals by rail rather than by trucks will be undertaken. The logistics processes to handle the livestock at the Djibouti port will be optimized. In addition, data infrastructure to better capture livestock trade and prices will be supported. The project will also support trade facilitation measures such as capacity building to eliminate non-tariff trade barriers, and regional coordination of policy and procedural reforms at the targeted border crossings. In addition, the project could support capacity building on trade negotiations for cross-border livestock trade.

c. **Facility to de-risk private investment in the livestock value chains and support local productive capacities**. The project will provide financial support to de-risk private investments into the livestock value chains, focusing on a few demonstration investments to show that sustainable business models can emerge to benefit pastoralists. Investments will have to be private sector initiated, commercially viable, and benefit pastoral producers. This will contribute to the PCM agenda. Grass-fed meat, camel milk and fodder appear

[19] Agreements between two trading partners to reduce technical barriers to trade.

to be promising value chains to attract private investment. The financial support will have two windows, one window for significant investments with substantial demonstration effects (i.e., that can be replicated and scaled-up) and a second window that will focus on women and youth business enterprises in pastoral areas, which could support livelihood diversification. One eligibility criterion for investments will be to provide adaptation or mitigation climate Co-Benefits, thus the whole amount of the facility is expected to generate climate Co-Benefits, and this will be tracked as an indicator. The facility will not support industrial livestock production and rather will aim to enhance the value of pastoralist grass-fed livestock and market it. Lessons learned from the IFC Luna project highlighted the need to improve the marketing practices of pastoralists to provide livestock in the appropriate quality and frequency, which the project could support with financial investment to exporters willing to build such capacity. Emerging digital technologies to address the issues of livestock identification and traceability could also be supported. The management of the facility will follow a strong governance framework, with open expressions of interest, clear eligibility criteria, bankability and tracking of investments, and will be managed by a financial intermediary or an entity with appropriate governance and expertise, and ability to support the private sector. In Kenya where this will be the main focus of Component 2, it will be managed by Kenya Development Corporation (KDC), and in Djibouti by *Centre Pour le Leadership et l'Entreprenariat* (CLE) with the Chamber of Commerce. In Ethiopia and Somalia, the implementation will be defined prior to disbursement.

38. **This component is informed by various studies and ongoing projects.** The WBG's Somalia Quality Infrastructure Diagnostic (2020) established a roadmap to strengthen quality infrastructure in the livestock sector, and the Somaliland Trade Review (2018) identified opportunities for trade facilitation. Somalia approved in 2021, a National Trade Policy (livestock represents 85 percent of export earnings) and a Livestock Sector Strategy in 2019, which are both ready for implementation. In Ethiopia, the World Bank financed National Quality Infrastructure Development Project (P160279) has been strengthening quality infrastructure, IFC is providing advisory services to the Luna Export Slaughterhouse and has assessed key bottlenecks for Ethiopian ovine meat exports. The Ministry of Trade and Regional Integration provided an assessment of live animal export challenges. In Kenya, the IFC financed in 2019, a feasibility study to establish a public-private investment vehicle in Laikipia county to integrate communal, pastoralist and small-scale livestock, fodder and crop producers into the grass-fed beef value chain. The Djibouti private sector diagnostic (2021) identified livestock interventions as necessarily regional. IGAD has issued various studies on quarantine centers, livestock trade and traceability, and standards in the HoA. During project preparation, the team carried out studies on i) the Djibouti-Ethiopia live animal corridor; ii) livestock trade infrastructure and facilitation issues along the Berbera -Jigjiga corridor and Mogadishu seaport; iii) the business plan for the private operation of the Jigjiga quarantine center; and iv) the business plan for Laikipia public-private investment vehicle.

39. **This component will be closely coordinated with IFC.** IFC's ongoing or upcoming advisory programs in Ethiopia, Kenya and Somalia will inform the identification of activities required to attract private sector investment. The outcome of collaboration will provide more insights on how public resources can be leveraged to de-risk investments which IFC could support in the future.

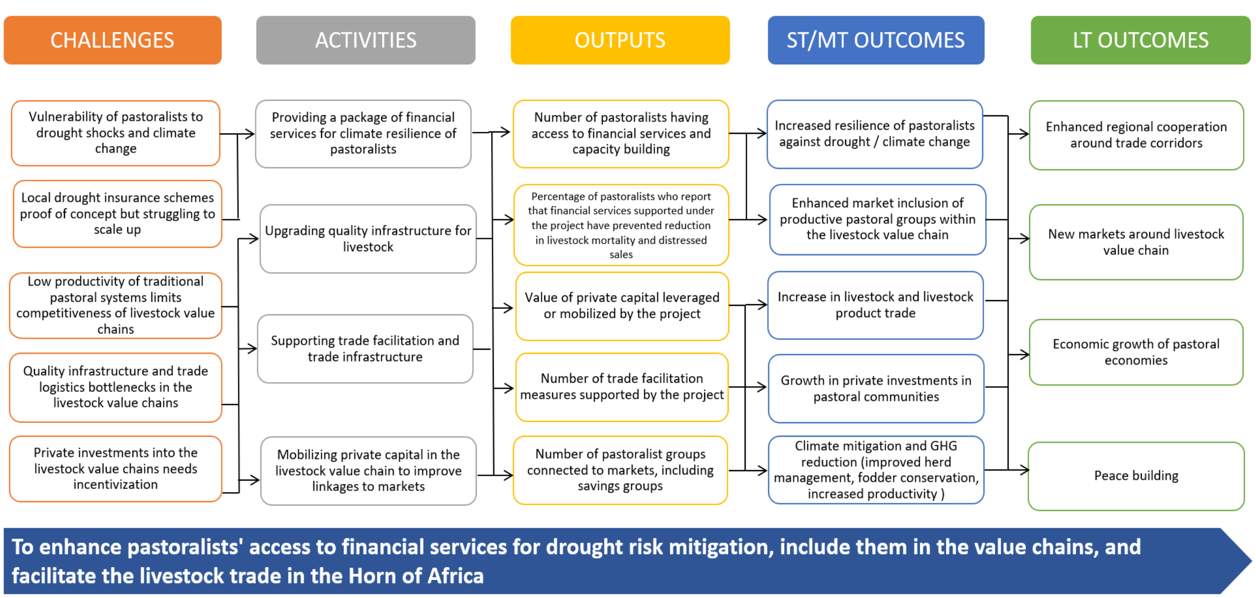
C. Project Beneficiaries

40. **The term "pastoralists or agro-pastoralists" is used to describe a wide range of people and situations and this project will be targeted at those communities and groups that are willing to engage in commercial livestock activities**. Interviews with stakeholders have highlighted the importance of precisely defining the intended beneficiaries. Some research categorizes pastoralists into four potential 'futures' depending on their access to markets and rangelands. To move-up through the wealth category, pastoralists need a minimum level of access to markets and rangelands; if this minimum level is not met pastoralists will be forced to move out of this livelihood. The primary target of the project will be pastoralists organized in groups with some access to rangelands or markets, where group formation exists or has been supported by other development partners, and which require additional support to commercialize production. The project will protect them against drought shocks and connect them better to markets. It will strengthen their investment and productivity, reduce their dependency on outside aid, and help them move to commercial activities, so they receive higher income from their livestock-rearing activities.

D. Results Chain

41. **The results chain for DRIVE is outlined in Figure 5.** The project addresses the challenges of high vulnerability to drought shocks and limited integration in the value chains. Activities will include a package of financial services for climate resilience of pastoralists, and the upgrade of quality infrastructure, trade facilitation and infrastructure, and private capital in the livestock value chain to improve linkages to markets. Outputs include the number of pastoralists having access to financial services, private capital mobilized, and trade facilitation measures. The project results are reflected in the short/medium term outcomes which are expected to translate to broader impacts beyond the scope of the operation such as improved pastoral resilience through risk finance and trade, new markets around the livestock value chain and improved regional cooperation around trade corridors.

Figure 5. Theory of Change



E. Rationale for Bank Involvement and Role of Parners

42. **The World Bank has significant internal experience on designing and implementing financial protection solutions, and helps countries ensure that their budgets and citizens are financially protected in the event of a climate-related disaster.** Through funding and expertise (including actuarial, catastrophe risk modelling, underwriting), the World Bank has developed tailored financial protection solutions that increase the ability of national and local governments, homeowners, businesses, agricultural producers, and low-income populations to respond more quickly to disasters. Insurance is one such solution and the World Bank has supported the implementation of drought index insurance in several countries, including Kenya since 2015, and is working on cutting edge research in Africa, including with the regional risk pools, to strengthen the tools and products available for clients.

43. **The World Bank and its development partners (AfDB, EU and others) are actively supporting regional coordination within the HoA initiative to address global threats.** The HoA Initiative presents an integrated approach to support resilience in pastoral areas by ensuring access to groundwater (HoA Groundwater for Resilience Project, P174867), protecting against pest and transboundary diseases (Emergency Locust Response Program, P173702) and supporting pastoral production systems (AfDB project on food security). DRIVE will complement those interventions by protecting pastoralists against drought with financial services, and connecting them better to markets, upgrading the livestock value chains and facilitating trade.

F. Lessons Learned and Reflected in the Project Design

44. **The operation incorporates numerous lessons from the experience of existing drought insurance programs and the provision of financial services in pastoral areas.** Drought index insurance for pastoralists has been extensively tested in the HoA and proven as an early-response instrument that is now ready for major scale-up. Over the past decade these programs have responded to the major seasonal and annual droughts that have affected large regions, paying out more than US$15 million to more than 45,000 pastoralists, enabling them to keep their core livestock herds alive. There have however been challenges of poor targeting, delayed premium payment and payouts, financial sustainability, and limited awareness creation. In response, this operation targets beneficiaries in pastoralist groups. New and more cost-effective ways of marketing and delivering coverage will be utilized, and pastoralists will be expected to contribute to the premium cost. A regional implementer with technical expertise will work alongside the local private sector to ensure products are well designed and systems are in place for timely premium collection and payment. Significant investments will be made in financial literacy and the project will support the introduction of more takaful compliant products. A project reserve layer and saving incentives will be used to help pastoralists manage the risk associated with losses from drought below the insurance trigger. Financial services are a means to help pastoralists be more productive, rather than an end and an overarching lesson is the value of linking the package of financial services and integration of pastoralists into the value chains despite added complexity.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

Component 1 – Regional implementer

45. **Component 1 will be implemented by ZEP-RE (PTA Reinsurance Company).** ZEP-RE is a specialized institution

of COMESA and an African multilateral insurance institution with a development mandate. Countries had the opportunity to assess options and noted that ZEP-RE would be well positioned to fulfill project management responsibilities. ZEP-RE will undertake financial management, procurement and environmental and social (E&S) risk management on behalf of the countries; and will provide a platform of shared services and risk infrastructure necessary for each country to scale up financial services access including insurance coverage. ZEP-RE is headquartered in Nairobi, Kenya and will have staff in each country to liaise with authorities and provide regular reporting. ZEP-RE will sign subsidiary agreements with each country outlining their responsibilities, flow of funds, reporting and technical assistance to countries as well as the process for countries to oversee ZEP-RE's activities. Governments under the aegis of the HoAI Secretariat will convene annual regional meetings which ZEP-RE will facilitate to review the implementation of the project, and address issues of regional coordination on both components.[20]

Component 2 – country specific implementing agencies

46. **For Component 2, each country will have its own project implementation unit (PIU).** In Djibouti, the PIU will be housed in the Ministry of Agriculture; in Ethiopia the Ministry of Agriculture (MoA) will host the main Project Coordination Unit (PCU) and the Ministry of Trade and Regional Integration (MoTRI) will have its own PIU; in Somalia the existing PIU within the Ministry of Finance will fulfill World Bank fiduciary duties initially; in Kenya the State Department of Livestock will be the main coordinating PIU, with the facility to de-risk private investment intermediated by KDC. Since the project is multi-sectoral in nature and involves several line Ministries (Finance, Commerce, Agriculture and Livestock, Quality Infrastructure Agencies, Central Bank, ZEP-RE), a steering committee will be established in all countries to oversee the project. This committee will meet every 6 months and will be supported by technical committees with staff from each line ministry to ensure the ownership and technical quality of the activities. ZEP-RE will attend the steering committee to ensure a strong link between the groups supported under Component 1 and the activities under Component 2. Annex 1 details arrangements for each country. On trade facilitation, public-private sector platforms will be established between exporters, Ministries of Trade and Ports and such platform is already in place on the Ethiopia-Djibouti corridor. The Secretariat of the HoA Initiative is also expected to play a coordinating role, by facilitating regular reporting to the HoA Ministerial meetings**.**

B. Results Monitoring and Evaluation Arrangements

47. **Monitoring and evaluation (M&E) will be undertaken by the implementing agencies and supplemented by global expertise.** M&E data will be collected from public and private sector partners and pastoralist surveys and aggregated by ZEP RE for Component 1 and national level Project Implementation Units (PIU) for Component 2. Project implementers will report to the World Bank on the use of resources and project performance, including information on the intermediate project results and progress towards achievement of the PDO. ZEP-RE is currently strengthening its Environmental, Social and Governance system to better report the development impact of its activities. All Component 2 implementing entities have experience in managing World Bank funded projects and undertaking M&E. The GRiF grant will support an impact evaluation of Component 1 with global expertise.

48. **The Project implementation will rely heavily on citizen engagement through pastoralist surveys carried out every 12/18 months by ZEP-RE.** The first survey in 2022 helped identify pastoralist groups and design project activities. Two citizen engagement indicators will be collected through those surveys (percentage of pastoralists who

[20] Annex 1 provides the assessment of ZEP-RE.

report that financial services supported under the project have prevented reduction in livestock mortality and distressed sales; and who report an understanding of financial products).

49. **Conflict modelling.** The project will engage local expertise to monitor the situation on the ground to ensure lending is not going to conflict affected areas, and a model will be developed to forecast and identify real and perceived factors most associated with changes in levels of both conflict events and population.

50. **Gender**. There is a gender gap in women's access to financial services in the HoA and involvement in the livestock trade. For the project, the gender gap will be measured as the difference in the percentage of women who have a bank account compared to men, since the project will facilitate the opening of savings accounts in formal financial institutions so that pastoralists can save. The overall gender gap across all the countries (Ethiopia, Kenya, Somalia) in terms of access to bank accounts is 12 percent (simple average). The project will reduce the gender gap by at least a quarter in all countries. The indicator will be percentage of women supported by the project who own a bank account. The project will aim to close the gender gap by supporting marketing strategies of financial products (through village champion model) and a financial education and outreach program to women groups.

C. Sustainability

51. **The project is designed to ensure that a sustainable program is in place after it ends.** Relative to the current approach of ex post and prone to leakage disaster relief, the project will result in significant savings, and promote a more sustainable pathway for pastoral livestock. It will do this by seeding a well-designed risk mitigation approach that uses progressive client contributions to share the costs of premium subsidies. Financial services provision will be undertaken by private sector providers, pastoralists will have increased their savings, and they will be linked to reliable markets to sell livestock. Those linkages will increase the quality of the livestock sold and the price fetched. Public premium financing may still be needed to support de-risking interventions in very vulnerable regions after the project ends. However, the expected positive impact will encourage the government through own revenue or support from development partners to continue offering subsidies though at lower levels, and relative to the current approach of ex-post disaster relief, the cost, efficiency, and value of each dollar spent are expected to improve. Exporters/off-takers of livestock could complement the contribution of pastoralists because they would have an interest in ensuring that their producers are able to continue producing quality livestock on an ongoing basis. Pastoralists will be expected to increase their contribution as their financial awareness increases, and the linkages to the value chains improves their productivity and income, reducing the level of public support needed. To provide the enabling environment for a sustainable program, DRIVE will create a platform of risk infrastructure services that could be used by more countries and development partners, and possibly for a wider range of risk finance products, such as crop insurance. Developing the local financial sector will lead to more competitive products. This creates incentives for strong and sustained participation beyond implementation of the project.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

52. **The financial modeling of Component 1 demonstrates high value for money for participating countries and pastoralists given the timely drought insurance payouts and ability to draw on savings.** To ensure the drought insurance product's cost efficiency, it is expected to payout during severe drought only. Insurance payouts therefore back savings to provide additional resources when needed the most. A scenario analysis calculated the Cost Benefit

Ratio (CBR) of the insurance product from both the perspective of the government (macro-economic analysis) and the pastoralist households (micro-economic analysis). The CBRs were calculated for two scenarios: Scenario 1 no insurance or 'self-insurance' (without DRIVE), and Scenario 2 drought index insurance product purchased (with DRIVE). At the macro-level the CBR for Scenario 2 was 8.3 (worst drought years) and 3.5 (average drought years) times higher than under Scenario 1. At the micro-level the CBR for Scenario 2 was between 30-60 (worst drought years) and 12-24 (average drought years) times higher than under Scenario 1. The analysis also showed that on average in a bad year, such as 2010/11, the product had a Catastrophic Performance Ratio of 3.13 (pastoralists get back US$3.13 per US$1 of premium in severe drought) and very large numbers of pastoralists would in fact have received 100 percent payout or US$700 – a Catastrophic Performance Ratio of 700 percent, representing a valuable product for a pastoralist concerned about the worst-case scenarios.

53. **For Component 2, the analysis is based on the available literature and identifies the key potential economic benefits as**: (i) Harmonization of standards and mutual recognition of conformity assessments through enhanced quality infrastructure, which will support formal trade. The use of standards and accreditation schemes reduce difficulties in assessing the quality of a product by enhancing the availability of reliable, accessible information on aspects of quality considered important by exporters, importers, and consumers. It helps domestic firms obtain international quality certifications at a lower cost, increase value added and enter new export markets. Research shows that investing 1 euro in quality infrastructure (metrology) yields benefits equivalent to 3 euros increase in GDP.[21] (ii) Increased efficiency in the livestock trade corridors through improvement in trade logistics and trade facilitation.[22] Research estimates that Africa is expected to have an increase in exports of animal products of 11.4 percent and an estimated 36 percent increase in beef exports if trade facilitation measures are implemented. (iii) Reduction in the risk of conflict, as trade in the Horn of Africa has been shown as contributing to state-building[23] (iv) Higher incomes of pastoralists through the facility to de-risk private investment if they supply livestock to collectors/traders with better quality and timing.

B. Fiduciary

(i) Financial Management (FM)

54. **As part of project preparation, FM assessments were carried out by the World Bank to evaluate the adequacy of FM arrangements at the implementing entities of the countries.** The objective of the assessments was to determine whether the proposed FM arrangements (a) are capable of correctly and completely recognizing and recording all transactions and balances relating to the project; (b) would facilitate the preparation of regular, accurate, reliable, and timely financial statements; (c) would safeguard the project's assets; and (d) would be subject to acceptable auditing arrangements. The assessments build on World Bank's knowledge of country FM systems and requirement, and experience and performance of implementing entities in other World Bank-financed operations.

55. **Based on the current FM assessments, fiduciary risk is considered Substantial.** Main challenges are related

[21] H. Kunzmann, T. Pfeifer, R. Schmitt, H. Schwenke, A. Weckenmann, Productive Metrology - Adding Value to Manufacture, CIRP Annals, Volume 54, Issue 2, 2005.
[22] For instance, in the Ethiopia-Djibouti corridor, a feasibility study will be undertaken to move livestock by train instead of trucks. The train transports a higher quantity of livestock in better conditions, allowing ships to be loaded in Djibouti to full capacity. While it is difficult to put a number on animal welfare and efficient shipping, work undertaken in the Ethiopia Trade Logistics Project shows that transport costs fall by 38 percent when using the train instead of trucks. Assuming 100,000 animals transported per year for a unit cost of US$10 per truck, the saving would be US$380,000 per year.
[23] Tobias Hagmann, Finn Stepputat, Trade Makes States, September 2022.

to: (a) complex FM arrangement as the regional entity needs to work with countries consortia of service providers and pastoralists who are the end beneficiaries; (b) ZEP-RE which implements Component 1 and will manage 50 percent of the overall resources is new to World Bank-financed operations with an understaffed project unit; (c) local financial intermediaries have rudimentary funds flow and banking systems particularly in Somalia - characterized by Anti Money Laundering and Anti -Terrorism Financing risks; (d) in Somalia, lack of key financial management competencies and internal controls, potential over-reliance on consultants to oversee implementation, and lack of regulatory framework for key Public Financial Management (PFM) aspects amongst others; (e) limited human resource capacity at Djibouti and no prior World Bank experience by KDC which will implement the facility to de-risk private investment in the value chains in Kenya; (f) in some cases, weak internal audit function; and (g) the need to clearly define the facility to de-risk private investments in the livestock value chains during implementation for Ethiopia and Somalia.

56. **The following mitigating measures are proposed:** (a) each country will sign a subsidiary agreement with ZEP-RE which will clearly lay out the FM arrangements and related fiduciary responsibilities; (b) ZEP-RE will create a separate entity (standard chart of accounts analysis segments) in its financial accounting system for this business line and for the countries involved to facilitate accounting, reporting and auditing arrangements. In consultation with the participating Governments and World Bank, ZEP-RE will further strengthen controls towards fraud and corruption management; (c) The PIM for each component will describe in detail the fiduciary and institutional arrangements in each country, and the implementation of the facility to de-risk private investment in the value chains; (d) FM arrangements, including funds flow arrangements and reporting arrangements, have been clearly defined in each country within the existing PFM legal country requirements and institutional arrangements; (e) eligible expenditures for Component 1 and the facility to de-risk private investment have been clearly defined; (f) strengthening of staffing, internal audit reviews and capacity building initiatives have been recommended; and (g) audit ToRs designed to mitigate potential fraud and corruption risks and strengthen internal control systems. Third party monitoring will be used to spot check the project beneficiaries and ensure they meet eligibility criteria.

57. **Subject to the successful implementation of the FM action plan and agreed mitigating measures, the proposed FM arrangements are considered adequate to support project implementation.** The FM arrangements will continue to require close monitoring from the World Bank and thorough implementation support and reviews within the initial implementation periods.

58. **Retroactive financing will be allowed except in Somalia**. Retroactive financing may be provided up to an aggregate amount not to exceed 20 percent of the IDA credit or grants for each of the recipient countries and of the GRIF Grant, for payments made after July 31, 2021 as long as project implementation arrangements agreed with IDA, including fiduciary and E&S risk management procedures as applicable, have been used and the activities financed by retroactive financing are related to the development objectives included in the Project description.

(ii) Procurement

59. **Governing procedure:** Procurement under the proposed Project will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers', Fourth edition, November 2020, as amended from time to time, hereafter referred to as 'Procurement Regulations'; the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 revised in January 2011 and July 1, 2016, and other provisions stipulated in the Financing Agreement will be applied for all procurement activities.

60. **Procurement documents**. The World Bank's latest Standard Procurement Documents (SPDs) will be used for procurement of goods, works, and non-consulting services while approaching the international market (www.worldbank.org/procurement/standarddocuments). For procurements from the national market, the Borrower country may use the respective national procurement procedure, as agreed in the Procurement Plan, subject to addressing the conditions stated in the Procurement Regulation paragraphs 5.3 and 5.4 (a to i).

61. **Use of National Procedure**. Borrower country's procedure is accepted for procurement from the national market provided that the requirements for use of the national procedure specified in the Regulation paragraph 5.4 are met. Other national procurement arrangements (other than national open competitive procurement) that may be applied by the borrower (such as limited/restricted competitive bidding, request for quotation/shopping, direct contracting), shall be consistent with the World Bank's core procurement principles and ensure that the World Bank's Anticorruption Guidelines and Sanctions Framework and contractual remedies set out in the Financing Agreement apply. In addition to the requirements in the Regulation, the "national" and "other national procurement arrangements" shall be applied provided that the respective procurement risk mitigation measures are implemented. The risk mitigation measures will be updated during the project implementation period.

62. **Project Procurement Strategy for Development (PPSD):** The countries submitted PPSDs which set out the procurement arrangement and market approach options both for high value/high risk and low value/low risk procurement activities in the project. They include a procurement plan for the first 18 months of the project. The PPSDs shall be updated, at least annually, or as required, to reflect changes in the procurement arrangement which might be required due to a change in requirements, market conditions, procurement environment.

63. **Procurement capacity and risk assessment**: The World Bank carried out a procurement capacity assessment in each country, identified risks and proposed risk mitigation measures. This assessment covered issues related to procurement regulatory framework and management capability; Integrity and Oversight; Procurement Process and Market Readiness; and Procurement Complexity. The World Bank determined that most implementing agencies in the respective countries need to strengthen their capacity to implement the project. As a result the overall procurement risk is rated "Substantial". Annex 1 details the proposed risk mitigation measures for each implementing agency.

64. **Systematic Tracking of Exchanges in Procurement (STEP).** The STEP system will be used to prepare, clear, track, and update Procurement Plans and conduct all procurement transactions. Procurement staff of the implementing agencies not familiar with STEP will be trained by the World Bank STEP champions.

65. **Procurement Oversight and Monitoring**: The World Bank exercises its procurement oversight through a risk-based approach comprising prior and post reviews as appropriate. It sets mandatory thresholds for prior review based on the procurement activity risk rating, as determined in the Procurement plan that will be agreed with the World Bank throughout the course of project implementation.

C. Legal Operational Policies

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

D. Environmental and Social

66. **The project is prepared under the Environmental & Social Framework (ESF), and all the Environmental and Social Standards 1-10 are relevant**. The environmental risk of the Project is Substantial. Component 1 has relatively limited direct impacts and is not expected to have significant indirect and induced adverse environmental impacts, and Component 2 will be mostly technical assistance, except for Ethiopia where the project involves small scale civil works that entail some environmental risks and impacts. However, potential investments under Component 2 that (i) establish or upgrade testing, certification, and inspection services for livestock and meat value chains; (ii) establish quarantine facilities along the live animal trade corridors; and (iii) upgrade of primary and secondary market centers, are also likely to present environmental risks. These activities could result in habitat degradation or fragmentation, limited clearance of vegetation cover, pollution of groundwater and surface water resources, generation of air pollutants, noise, dust, risks to community health and safety, risks to workers' occupational health and safety, and overgrazing. The Environmental and Social Management Framework (ESMF) will include a screening procedure and a ToR for environmental and social impact assessments to be carried out after selection of sub projects, and which will recommend measures to avoid or mitigate significant adverse impacts.

67. **The social risk of the Project is assessed as Substantial**. Under Component 1, there is a risk that due to the mobile nature of pastoralists, the outreach and meaningful consultations with pastoral communities may be limited. The insurance product relies on mobile money for fast payouts and there is a risk that not all pastoralist households will own a mobile phone, or that mobile connectivity may be poor and hinder access to these services. Under component 2, social risks related to the construction of infrastructure are possible, including land acquisition and resettlement impacts. Social risks and impacts will be covered in the ESMF and Social Assessment, which are under preparation and will be consulted upon and publicly disclosed prior to project effectiveness. Country-specific ESMF will be prepared to capture country-specific issues. Social assessments in Kenya and Ethiopia will identify potential risks of exclusion and social impacts of Components 1 and 2. The conflict model will monitor and report on online sentiment about infrastructure, land acquisition and resettlement, and observe any relationship to violence.

68. **Instruments**. The Environmental and Social Review Summary was disclosed in May 2022. For Component 1, ZEP-RE's Environmental and Social Management System (ESMS) will be upgraded and all financial services providers participating under the program will have to adhere to its requirements. KDC under component 2 for Kenya will require an ESMS which will be adopted prior to disbursement. The Environmental and Social Commitment Plans (ESCP) for all the four countries, disclosed in May 2022, set out agreed measures to be taken by the Borrowers to address the environmental, social and labor risks identified in the project. The ESCPs include all the procedures necessary to ensure compliance with the World Bank's ESF, including commitments by the clients to prepare and implement (i) ESMF, (ii) site-specific Environmental & Social Management Plans), forming part of the ESMF procedures, Gender Based Violence (GBV) action plan for Ethiopia; (iii) the Stakeholder Engagement Plan which have been prepared for each country[24]; and (iv) the Labor Management Procedure. In addition, the clients will commit to

[24] Disclosed for Djibouti in April 2022, and for the other countries will be updated and disclosed by effectiveness.

carry out capacity building for the implementation of all ESF-related requirements. The E&S instruments are at an advanced stage of preparation and are expected to be completed and disclosed prior to effectiveness as stipulated in the respective ESCPs. The ESMFs provide project-level grievance mechanism, process, and procedure to receive and facilitate resolution of concerns and grievances of project-affected parties arising in connection with the project. For Component 1, ZEP-RE, and for component 2, the country implementing entities, will be responsible for the implementation of grievance redress mechanisms.

V. GRIEVANCE REDRESS SERVICES

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/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

69. **The overall risk is assessed as high.**

70. **Political and governance risk is rated high.** Episodes of political instability have happened in the HoA as evidenced by the coup in Sudan in October 2021 and the ongoing conflict in Tigray, Ethiopia. Ethiopia and Somalia are classified as fragile and conflict-affected situations according to the WBG. Elections in Somalia were postponed several times. The poor rains in 2020 and 2021 have increased the risks of conflict between pastoralists and ranchers in several counties in Kenya, which has been exacerbated by the upcoming elections in August 2022. Conflict situations would undermine the ability of the project to reach a large amount of pastoralist groups with financial services. Given the ongoing conflict in Ethiopia, the project will hire local expertise to monitor the situation on the ground to ensure lending is not going to conflict affected areas, and to forecast and explain change in population and change in levels of conflict events (this was recently done in Eastern DRC).

71. **Macroeconomic risk is rated high.** The economic recovery has been timid and fragile. The slow pace of vaccination continues to expose the region to emerging strains of coronavirus, holding back economic performance. Inflation has picked up due to rising food prices. The fiscal space is constrained: Djibouti, Ethiopia and Kenya are at high risk of debt distress while Somalia is in debt distress. Somalia is striving to stay on track of the International Monetary Fund program, as the second Extended Credit Facility has stalled. Ethiopia is starting to renegotiate its debt under the Common Framework for Debt Treatments. Macroeconomic instability would make it difficult for the project to support trade facilitation and harmonization of standards across HoA countries, and to attract private investment in the provision of financial services to pastoralists and the value chains. On the other hand, insurance is an effective public financial management mechanism as it removes risk from government balance sheets and passes it to the private sector; trade in livestock and livestock products is a significant contributor to exports earnings, and the project will ensure the commitment of countries to facilitate the trade.

72. **Sector strategies and policies risk is rated high.** The project focuses on financial sector and livestock trade. Exports of live animal and livestock products are highly vulnerable to diseases and regular bans issued by importing countries in the Middle East. For instance, in 2000, Saudi Arabia banned livestock export from the Horn because of the outbreak of Rift Valley fever. The ban lasted for nine years. In 2016, Saudi Arabia re-imposed a ban, but suspended it during the Hajj. Investments in quality infrastructure under the project will help with the traceability and certification of livestock products. Interventions will be closely coordinated with the AfDB Food and Nutrition security project which will strengthen the inter-regional regulatory committee of IGAD- Gulf Cooperation Council to minimize trade bans. On the financial services, there is a risk of low take-up of the insurance product since pastoralists are expected to contribute to the cost. To mitigate this risk DRIVE will learn the lessons from previous programs, focusing on aggregation, a private sector driven approach, with significant awareness creation activities alongside alternative (cost-saving) distribution modalities. Another risk is related to the enabling policy environment for financial services, especially in Somalia where the insurance regulations are in the process of being adopted; the project will provide capacity building to the Central Bank to supervise and develop the insurance sector.

73. **Technical design risk is rated high**. The technical design is complex with four countries and seven implementing agencies. It will be critical that the two components be closely linked to increase the productivity of pastoralists and allow them to extract more value from their livestock. The project intends to link groups supported by Component 1 to the value chains under the Component 2, however this will require a willingness of those groups to sell livestock on an ongoing basis to off-takers, and a willingness of off-takers to invest in their supply chains and build the capacity of pastoralists to provide livestock with the required quality. This will require a strong engagement of ZEP-RE and Component 2 implementing agencies with the private sector. As the project is cross-sectoral in nature, a strong coordination between all participating Ministries and ZEP-RE will be needed in each country and this will be done through the Steering Committees established in each country to oversee the project. In addition, this is a regional project which will require continuous coordination between countries. ZEP-RE will facilitate this coordination as it is owned by countries and has a strong presence on the ground and the project will also leverage the Secretariat of the HoA Initiative.

74. **Institutional capacity for implementation risk is rated high**. ZEP-RE will be implementing a World Bank project for the first time. Component 2 implementing agencies have experience with implementing World Bank-funded projects. The project aims to reach populations that are traditionally underserved, using a private sector approach. ZEP-RE will have to create multiple partnerships with local financial institutions and NGOs to ensure the delivery of financial services and they will have local presence. Financial literacy of pastoralists will be critical to ensure trust in the financial services provided, and contribution of pastoralists overtime. Through the GRIF grant, the project will provide financial literacy programs to pastoralists, and capacity building to ZEP-RE and local financial institutions to improve the last mile delivery.

75. **Fiduciary risks are rated substantial.** FM risks are described above. Main procurement risks are related to the lack of adequate procurement capacity, the complexity of some of the procurement activities and market risks associated with fragility. ZEP-RE and MoTRI in Ethiopia have no or limited procurement experience in World Bank financed projects. Others (Ministry of Agriculture in Ethiopia and Djibouti, State Department of Livestock -SDL- in Kenya) are overloaded with other procurement responsibilities. ZEP-RE and SDL do not have adequate procurement complaint management system. Some consultancy assignments require technical expertise which is not readily available. The market in some of the fragile countries is unstable and sometimes suffer from limited interest from international contractors/consultants. Mitigation measures include the use of SPDs, recruitment of dedicated procurement experts and training on STEP.

76. **E&S risks are rated substantial**. Although the negative E&S impacts of the project are limited given the focus on financial services and technical assistance under Component 2 in most countries (with civil works only expected in Ethiopia), the project focuses on pastoral areas which have substantial underlying E&S risks (gender-based violence, child labor, soil degradation, marginalized communities, conflicts). Private actors supported by the project to provide financial services or to invest in pastoral areas will be sensitized on the underlying risks and will have risk management systems in place. Each country will put in place a project specific community grievance redress mechanism that will address effectively all the issues, concerns and grievances. ZEP-RE will put in place a complaints mechanism and each Component 2 implementing agencies will implement a gender-based violence action plan.

77. **Stakeholder risk is rated high**. The project seeks to incentivize pastoralists to enter into regular sales of quality livestock, so as to increase productivity and incomes. Evidence from Kenya and Ethiopia suggests that the financial protection against drought afforded by insurance, has incentivized pastoralists to invest in their herds. The livestock value chains are clan-based and linking producers directly to off-takers/exporters may be opposed by the middlemen/intermediaries. Groups that benefit from interventions under the project (for instance by conserving rangelands or fodder) may be vulnerable to other pastoralist groups, which move their livestock to those less degraded rangelands when drought strikes. To mitigate this risk, the project will follow a highly localized approach to support groups that are already supported by development partners, have the capacity to become more productive, and in doing so, provide positive spillovers to other pastoralists in the same areas.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Eastern and Southern Africa

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

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Pastoralists having access to financial services and capacity building for climate resilience			
Number of pastoralists and their dependents covered by financial services and capacity building under the project (Number)		0.00	1,600,000.00
Number of pastoralists and their dependents covered by financial services and capacity building in Ethiopia (Number)		0.00	500,000.00
Number of pastoralists and their dependents covered by financial services and capacity building in Kenya (Number)		0.00	800,000.00
Number of pastoralists and their dependents covered by financial services and capacity building in Somalia (Number)		0.00	300,000.00
Percentage of pastoralists who received payouts within 30 days of official announcements of payout by calculation agent (Percentage)		0.00	80.00
Pastoralist groups supported by the project and connected to markets			
Number of pastoralist groups supported by the project and		0.00	2,500.00

Indicator Name	PBC	Baseline	End Target
connected to markets (Number)			
Number of Village Savings and Lending Associations supported by the project and connected to markets (Number)		0.00	1,500.00
Number of pastoralists groups supported in Ethiopia (Number)		0.00	900.00
Number of pastoralist groups supported in Kenya (Number)		0.00	1,200.00
Number of pastoralist groups supported in Somalia (Number)		0.00	400.00
Increase in trade in livestock and livestock products			
Ethiopia - Number of live animals exported through Ethiopia Quarantine Centers (Number)		7,621.00	12,274.00
Kenya - Value of Livestock and Livestock products traded by pastoralists as a result of the project (Amount(USD))		0.00	115,000,000.00
Somalia - Value of livestock and livestock product trade (Amount(USD))		398,000,000.00	473,000,000.00
Djibouti - value of livestock and livestock product trade (Amount(USD))		21,000,000.00	25,000,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Package of financial services for climate resilience			
Percentage of pastoralists in target areas who received the information to understand the financial products (Percentage)		0.00	80.00

Indicator Name	PBC	Baseline	End Target
Female headed pastoralist households who received the information to understand the financial products (Percentage)		0.00	80.00
Number of formal financial sector companies providing services to pastoralists under the project (Number)		0.00	30.00
Number of digital accounts in use during and at the end of the project (Number)		0.00	250,000.00
Percentage of women supported under the project who own a bank account in Kenya (Percentage)		33.00	37.00
Percentage of women supported under the project who own a bank account in Ethiopia (Percentage)		29.00	32.00
Percentage of women supported under the project who own a bank account in Somalia (Percentage)		25.00	27.50
Increase in the savings contributions of pastoralists supported by the project (Percentage)		0.00	50.00
Percentage of pastoralists who report that financial services supported under the project have reduced livestock mortality and distressed sales. (Percentage)		0.00	80.00
Amount of Private Capital Enabled or Mobilized through the project (Amount(USD))		0.00	572,000,000.00
Amount of Private Capital Enabled from (re)/insurers through Component 1 (Amount(USD))		0.00	500,000,000.00
Amount of Private Capital Mobilized through the facility to de-risk private investment in Djibouti (Amount(USD))		0.00	2,000,000.00
Amount of Private Capital Mobilized through the facility to de-risk private investment in Ethiopia (Amount(USD))		0.00	20,000,000.00
Amount of Private Capital Mobilized through the facility to de-risk private investment in Kenya (Amount(USD))		0.00	40,000,000.00
Amount of Private Capital Mobilized through the facility to de-risk private investment in Somalia (Amount(USD))		0.00	10,000,000.00
Livestock Value Chains and Trade Facilitation			

Indicator Name	PBC	Baseline	End Target
Amount of investments supported under component 2 that limit GHG emissions or support adaptation of pastoralists (Amount(USD))		0.00	72,000,000.00
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (total) (Number)		0.00	700.00
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (in Djibouti) (Number)		0.00	50.00
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (In Ethiopia) (Number)		0.00	400.00
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (in Somalia) (Number)		0.00	250.00
Number of testing for livestock products conducted by Somalia in line with international practice (Number)		0.00	100.00
Number of trade facilitation measures supported by the project (Number)		0.00	20.00
Number of trade facilitation measures adopted in Ethiopia (Number)		0.00	10.00
Number of Trade facilitation measures adopted in Somalia (Number)		0.00	6.00
Number of trade facilitation measures adopted in Djibouti (Number)		0.00	4.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Number of pastoralists and their dependents covered by financial services and capacity building under the project	This reflects 250,000 pastoralists who are covered in year 5 by the package (savings, insurance, digital accounts), multiplied by the number of people in their households (average of 6.4). 50,000 pastoralists would be covered in year one, and this would increase by 50,000 per year.	Annual	ZEP-RE digital platform	ZEP-RE digital platform	ZEP-RE
Number of pastoralists and their dependents covered by financial services and capacity building in Ethiopia	This reflects 78,125 pastoralists who are covered in year 5 by the package (savings, insurance, digital accounts), multiplied by the number of people in their households (average of 6.4). The target for year one is 15,625 increasing by the same amount every year.	Annual	ZEP-RE digital platform	ZEP-RE digital platform	ZEP-RE
Number of pastoralists and their dependents covered by financial services and capacity building in Kenya	This reflects 125,000 pastoralists who are covered in year 5 by the package (savings, insurance, digital accounts), multiplied by the number of people in their households (average of	Annual	ZEP-RE digital platform	ZEP-RE digital platform	ZEP-RE

	6.4). The target for year one is 25,000 increasing by the same amount every year.				
Number of pastoralists and their dependents covered by financial services and capacity building in Somalia	This reflects 46,875 pastoralists who are covered in year 5 by the package (savings, insurance, digital accounts), multiplied by the number of people in their households (average of 6.4). The target for year one is 9,375 increasing by the same amount every year.	Annual	ZEP-RE digital platform	ZEP-RE digital platform	Zep-RE
Percentage of pastoralists who received payouts within 30 days of official announcements of payout by calculation agent	This indicator will measure the speed at which pastoralists are paid insurance payouts, once the insurance has been triggered following a severe drought	When the insurance payouts are triggered after a severe drought	Pastoralist su rveys	This information can only be collected and may be provided at any point in the period, not necessarily at the end of the project. Methodlogy is through pastoralist surveys	ZEP-RE
Number of pastoralist groups supported by the project and connected to markets	Those will be groups supported under Component 1 with the package of financial services, and that will be connected to reliable markets either through the same Component 1 or through the facility to de-risk private investment	Annual	ZEP-RE and Country Implementin g Agencies under Component 2	Pastoralist surveys and project activities	Zep-RE and country Implementing Agencies under Component 2

	under Component 2. This will be assessed through contracts and off-take agreements but also through regular sales of livestock from the groups to livestock processors and exporters.				
Number of Village Savings and Lending Associations supported by the project and connected to markets	Those will be groups supported under the project that are structured around savings (savings groups)	Annual	Pastoralist su rveys and project activities	ZEP-RE and Component 2 Implementing Agencies	ZEP-RE and Component 2 Implementing Agencies
Number of pastoralists groups supported in Ethiopia	Pastoralist groups supported by the project and connected to markets in Ethiopia	Annual	Pastoralist surveys and project activities	Pastoralist surveys and project activities	Zep-Re and component 2 implementing agencies in Ethiopia
Number of pastoralist groups supported in Kenya	Pastoralist groups supported by the project and connected to markets in Kenya	Annually	Pastoralist surveys and project activities	Pastoralist surveys and project activities	ZEP-RE and Component 2 implementing agencies in Kenya
Number of pastoralist groups supported in Somalia	Pastoralist groups supported by project and connected to markets in Somalia	Annually	Pastoralist survey and project activities	Pastoralist surveys and project activities	ZEP-RE and Component 2 implementing agencies in Somalia
Ethiopia - Number of live animals exported through Ethiopia Quarantine Centers	Increase in the export of live animals from quarantine centers	Annual	Ethiopia Component 2 Implementin g Agencies	Ethiopia Component 2 Implementing Agencies	Ethiopia MOTRI

Kenya - Value of Livestock and Livestock products traded by pastoralists as a result of the project	This will reflect the value of livestock and livestock products traded by pastoralist groups linked to value chains. This assumes that the project would contribute 2.5% of the total value of Kenyan livestock exports (according to the Integrated National Export Development and Promotion Strategy, the potential export value of live animals would be USD$1.8 b and meat at USD$2.8 b at the end of the strategy period).	Annual	Kenya Component 2 Implementin g Agencies (KDC and SDL)	Survey of groups linked to value chains	Kenya Component 2 Implementing Agencies (KDC and SDL)
Somalia - Value of livestock and livestock product trade	This reflects the impact of the project on the increase in the official trade in livestock and livestock products for Somalia. In 2019-2020, livestock trade increased by 2.6%. The project assumes an annual increase of 3.5%.	Annual	Somalia Component 2 Implementin g Agency through the Trade Portal	Somalia Component 2 Implementing Agency through the Trade Portal	Somalia Component 2 Implementing Agency
Djibouti - value of livestock and livestock product trade	This reflects the impact of the project on the increase in the official trade in livestock and livestock	Annual	Djibouti export data	Djibouti export data	Djibouti Component 2 Implementing Agency

	products for Djibouti, with an expected increase by 19 percent mainly due to livestock products.				

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Percentage of pastoralists in target areas who received the information to understand the financial products	This indicator aims to verify through surveys if pastoralist households have received capacity building to understand the financial products provided,	Every 18 months	Collection through pastoralist surveys	Information collected through surveys.	ZEP-RE
Female headed pastoralist households who received the information to understand the financial products	this indicator aims to verify through surveys if female-headed pastoralist households have received capacity building to understand the financial products provided, and aims to have no gender gap between men and women	Every 18 months	Pastoralist surveys	Pastoralist surveys	ZEP-RE
Number of formal financial sector companies providing services to pastoralists under the project	this will reflect the mobilization of microfinance institutions and banks around the provision of package of financial services, and in particular the opening of new savings	Annual	ZEP-RE	ZEP-RE through its partnerships	ZEP-RE

	accounts for pastoralists groups at those institutions				
Number of digital accounts in use during and at the end of the project	This reflect the number of digital accounts that are in use as a result of the project, which could either be payment accounts, or savings accounts	Annual	ZEP-RE	ZEP-RE through its partnerships and digital platform	ZEP-RE
Percentage of women supported under the project who own a bank account in Kenya	percentage of women supported under the project that own a bank account in a formal financial institution	every 18 months	Pastoralist su rveys	Pastoralist surveys	Zep-RE
Percentage of women supported under the project who own a bank account in Ethiopia	percentage of women supported under the project that own a bank account in a formal financial institution	Every 18 months	Pastoralist su rveys	Pastoralist surveys	ZEP-RE
Percentage of women supported under the project who own a bank account in Somalia	percentage of women supported under the project that own a bank account in a formal financial institution	Every 18 months	Pastoralist surveys	Pastoralist surveys	ZEP-RE
Increase in the savings contributions of pastoralists supported by the project	This indicator aims to verify how the project has incentivized the growth of savings from the pastoralist groups supported by the project	Every 18 months - baseline es tablished by verifying the amount of savings held by a sample of the groups sup	Pastoralist su rveys	Pastoralist surveys	ZEP-RE

		ported in year 1 by the project			
Percentage of pastoralists who report that financial services supported under the project have reduced livestock mortality and distressed sales.	This reflect the impact of the product in reducing livestock mortality after a drought. This will be collected after a severe drought happens.	At one point in time after a drought	Pastoralist surveys	This information can only be collected after a drought and may be provided at any point in the period, not necessarily at the end methodology is through pastoralist surveys	ZEP-RE
Amount of Private Capital Enabled or Mobilized through the project	This reflects Private Capital Enabled (through Component 1) and Private Capital Mobilized (through Component 2)	Annual	ZEP-RE and Component 2 Implementin g Agencies in each country	ZEP-RE and Component 2 Implementing Agencies in each country	ZEP-RE and Component 2 Implementing Agencies in each country
Amount of Private Capital Enabled from (re)/insurers through Component 1	This reflects Private Capital Enabled by transferring drought risk to local insurers and international reinsurers. This is the total sum insured.	Annual	ZEP-RE	ZEP-RE	ZEP-RE
Amount of Private Capital Mobilized through the facility to de-risk private investment in Djibouti	Private capital mobilized through the facility to de-risk private investment	Annual	Djibouti Component 2 Implementin g Agency	Djibouti Component 2 Implementing Agency	Djibouti Component 2 Implementing Agency
Amount of Private Capital Mobilized through the facility to de-risk private investment in Ethiopia	Private Capital Mobilized through the facility to de-risk private investment	Annual	Ethiopia Component 2 Implementin	Ethiopia Component 2 Implementing Agencies	Ethiopia Component 2 Implementing Agencies

			g Agencies		
Amount of Private Capital Mobilized through the facility to de-risk private investment in Kenya	Private Capital Mobilized through the facility to de-risk private investment	Annual	Kenya Component 2 Implementing Agency (in that case KDC)	Kenya Component 2 Implementing Agency (in that case KDC)	Kenya Component 2 Implementing Agency (in that case KDC)
Amount of Private Capital Mobilized through the facility to de-risk private investment in Somalia	Private Capital Mobilized through the facility to de-risk private investment	Annual	Somalia Component 2 Implementing Agency	Somalia Component 2 Implementing Agency	Somalia Component 2 Implementing Agency
Amount of investments supported under component 2 that limit GHG emissions or support adaptation of pastoralists	climate adaptation or mitigation co-benefits will be an eligibility criteria for all investments under the facility to de-risk private investment in the livestock value chains	Annual	Component 2 implementing agencies	all Component 2 national implementing agencies by tracking all investments	all Component 2 national implementing agencies
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (total)	This reflects the harmonization of standards by providing capacity building to quality infrastructure professionals using cross-border capacity building tools	Annual	cummulative target - through project activities	Through the project activities , and each Component 2 implementing Agency will track	Component 2 Implementing Agencies
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (in Djibouti)	This reflects the number of professionals trained on standards (quality infrastructure) in Djibouti	Annual	project activities	Through the project activities , and each implementing entity will track	Djibouti Component 2 Implementing Agency

No. of NQI professionals trained on quality infrastructure using cross-border collaboration (In Ethiopia)	This reflects the number of professionals trained on standards (quality infrastructure) in Ethiopia	Annual	Project activities	Through the project activities , and each implementing entity will track	Ethiopia Component 2 Implementing Agencies
No. of NQI professionals trained on quality infrastructure using cross-border collaboration (in Somalia)	This reflects the number of professionals trained on standards (quality infrastructure) in Somalia - includes the Somaliland Quality Control Commission staff	Annual	Through the project activities	Cumulative Target	Somalia Component 2 Implementing Agency
Number of testing for livestock products conducted by Somalia in line with international practice	This includes the number of testing processes undertaken by the Somalia Ministry of Livestock, Forestry and Range, Somalia Bureau of Standards, Somaliland Quality Control Commission, and entities with a mandate to check the quality of livestock and livestock products, to ensure compliance with international norms	Annual	project activities	cumulative target	Somalia Component 2 Implementing Agency
Number of trade facilitation measures supported by the project	This reflects the number of interventions that facilitate livestock trade adopted in one location	Annual	Country Implementing Agencies under Component 2	Tracking through activities and semi-annual reporting	Country Implementing Agencies under Component 2

Number of trade facilitation measures adopted in Ethiopia	This reflects the number of interventions that facilitate livestock trade adopted in Ethiopia	Annually	Ethiopia Implementing Agencies under Component 2	Tracking through activities and semi-annual reporting	Country implementing agencies under component 2
Number of Trade facilitation measures adopted in Somalia	This reflects the number of interventions that facilitate livestock trade adopted in Somalia	Annually	Somalia implementing agency under component 2	Tracking through activities and semi-annual reporting	Country implementing agency under component 2
Number of trade facilitation measures adopted in Djibouti	This reflects the number of interventions that facilitate livestock trade adopted in Djibouti	Annually	Djibouti implementing agency under component 2	Tracking through activities and semi-annual reporting	Country Implementing agency under component 2

ANNEX 1: Implementation Arrangements and Support Plan

This Annex presents the main features of the project's implementation arrangements. Further details are in the PIM.

Component 1

1. **Countries will borrow IDA funds, approve the policies underpinning Component 1, and delegate the project management responsibilities to ZEP-RE to drive economic sustainability.** ZEP-RE will be responsible for project and financial management of Component 1 in line with World Bank standards. It will provide a platform of shared services and risk infrastructure necessary for each country to scale up financial services access including insurance coverage. These services will include payments, facilitating the formation of savings groups and opening of savings accounts, insurance product design, coordination and provision of reinsurance, calculation agent, capacity building to countries and financial services providers, and awareness creation on savings and insurance. Payments will include direct claim payments to pastoralists and facilitating the use of savings deposits from pastoralists to banks and MFIs. ZEP-RE will have staff in each country to liaise with authorities and provide regular reporting. Third party monitoring will be used to spot check the project beneficiaries and ensure they meet eligibility criteria.

2. **ZEP-RE (PTA Reinsurance Company) is a specialized institution of the COMESA.** Its mandate is to facilitate trade through insurance and reinsurance business specifically; to promote insurance penetration, to provide technical assistance to the insurance industry in the region, and to create and administer risk pools. ZEP-RE was established in 1990 through an Agreement of Heads of State and Governments of COMESA and commenced business operations in 1993 with its headquarters in Nairobi, Kenya.[25] Nearly 47 percent of ZEP-RE's business is in HoA countries. In 2018 regional governments expanded the mandate of ZEP-RE to deepening financial inclusion.

3. **ZEP-RE is an investment grade rated development institution with a very strong balance sheet and capacity to provide reinsurance protection.** The rating further reflects ZEP-RE's strong operating performance as evidenced by its 10-year (2011-2020) weighted average return on equity of 10.6 percent. Shareholding has grown from an initial 5 members to 37 members, which include 6 governments, 13 state-owned companies, 14 private insurance companies and 2 development finance institutions.

4. **The value-added of using a regional entity is driven by a range of factors:**

    - **Economies of scale** – create savings in the operational costs.
    - **Engagement with (re)insurers and partnerships** – efficiently structure the (re)insurance program and work with partners in the upstream design to ensure capacity in the market.
    - **Centralized management of funds in hard currency** – reduces currency risk as well as risk of late payment of premium, which in turn reduces insurance loading by underwriters. Furthermore, this limits the number of transactions and hence creates savings in transactional costs.
    - **Project management costs** – ZEP-RE is an operational regional entity with technical expertise in IBLI and management of risk pools. Their structural and operational nature results in cost optimization. Alternative options would be more costly. Option 1 would be to work with a regional public entity, but which would

[25] Signatory member states within HoA include Djibouti, Kenya, Eritrea, Ethiopia, Somalia, Sudan, and Uganda.

lack insurance expertise. This option would entail significant costs in hiring appropriately skilled personnel or capacitating existing personnel within the regional entity on IBLI, takaful and microinsurance. Option 2 would be to implement Component 1 nationally with national reinsurers in each country acting as implementing units. This would have limited risk pooling, economies of scale and resulted in overall higher transaction costs.

5. **Each country will sign a subsidiary agreement with ZEP-RE to lay out roles, responsibilities, and oversight.** The agreement will detail the flow of funds, the results to be achieved by ZEP-RE under the project, the specific activities funded by the GRiF grant, the coordination and reporting mechanism by ZEP-RE, the circumstances under which countries may suspend disbursement or claw-back funds, among others. ZEP-RE will provide capacity building to country counterparts on the program. In Ethiopia, capacity building will be provided to the Ministry of Agriculture who will oversee the implementation of Component 1. In Somalia, capacity building will be provided to the Central Bank of Somalia, the Ministry of Finance and Ministry of Livestock. In Kenya, capacity building will be provided to the National Treasury and State Department of Livestock.

6. **As DRIVE is a regional project and the regional implementation arrangement of Component 1 is key for sustainability, the countries were presented with options of regional implementers.** This was done for countries to exercise their sovereign responsibility to determine implementation arrangements, which is not subject to procurement processes. The regional implementation was made clear in the initial project concept approved by the Ministers of Finance under the Horn of Africa Initiative (HoAI) (https://hoainitiative.org/project-profiles/) and the countries endorsed the approach during the scoping mission in April-June 2021. Key criteria for regional implementers were a strong technical expertise in (re) insurance, capacity to mobilize the private sector, and financial soundness. Two institutions with experience in insurance and private sector engagement (African Risk Capacity Ltd, and ZEP-RE) presented their proposals for delivering the program and their past achievements in similar areas. During a workshop in July 2021 under the aegis of the HoAI Secretariat, countries made a decision that ZEP-RE's strong presence on the ground would facilitate the implementation of DRIVE. Countries had the opportunity to review detailed proposals on the implementation of drought insurance and agreed that ZEP-RE's proposal adequately met their needs.

Table 1.1. Component 1: indicative cost breakdown

	Djibouti	Ethiopia	Kenya	Somalia	Total
IDA	**1**	**45**	**75**	**30**	**151**
- Startup costs (equity contribution to ZEP-RE)		4.5	7.5	3	15
- Savings incentives		13.5	22.5	9	45
- Insurance premium	1	27	45	18	91
GRIF (extended to and managed by ZEP-RE)	**1**	**9**	**9**	**9**	**28**
- Implementation costs (incl. capacity building)		5	5	5	15
- Insurance premium	1	4	4	4	13

7. **Financial Management.**
The financial management procedures will follow each respective government PFM procedures. ZEP-RE will prepare annual work plans and budgets to be submitted to each government in line with the budgetary process.

(a) Organization and Staffing

ZEP-RE finance and accounting department is adequately staffed under the leadership of a CFO. The finance team is well resourced with the key accounting staff being qualified and experienced accountants with defined roles and responsibilities ZEP-RE will designate an accountant to work on the project. During implementation, the need for additional accounting staff will be assessed and where necessary additional staff may be hired for the project based on Terms of Reference (ToR) acceptable to the World Bank. The accounting and staffing arrangements are considered adequate for the project.

(b) Planning and Budgeting

Budgeting will follow ZEP-RE budgeting procedures along with government procedures and budgeting cycles. The detailed budget approval process of ZEP-RE is captured in ZEP-RE FM assessment report and reveals that there is clear process for budget preparation, approval and control. ZEP-RE will also ensure that each participating country approves the annual work plan and budget. ZEP-RE will ensure that the project follows the well-established budget process, and the chart of accounts reflects the needs of the project and will be modified as necessary. The planning and budgeting procedures are considered adequate for the project.

(c) Accounting Systems, Policies, and Procedures

ZEP-RE uses Sun accounting system. The system records all financial operating transactions allowing for the proper recording and classification of all financial transactions. The system is capable to meet the reporting requirements of the World Bank. The project will be set up as a separate entity and dimensional analysis for each country in the Sun system to allow for effective financial reporting to the World Bank.

(d) Internal Controls and Internal Audit

ZEP-RE has a Finance procedure manual (2008) that guides the day-to-day financial operations. It provides for the International Financial Reporting Standards) and the necessary internal control processes of segregation of duties, approval and authorizing of transactions including procurement functions. The procedures manual is based on the current business structure and any procedures to align to project activities would need to be incorporated accordingly. Preparation of a PIM for component one is an effectiveness condition.

The internal audit function has been outsourced to a reputable audit firm, KPMG. A review of the internal audit report prepared by KPMG revealed that they have put proper measures to review as per the Audit Charter. The management is positive on acting on recommendations made by the Auditor. The Internal Audit Report is also presented for review to the Audit Committee. The project will be included as part of the review of activities under the Audit Charter. The Internal Auditor ToR will be enhanced to include the review of the project activities. The internal control procedures are considered adequate for the project.

(e) Financial Reporting

ZEP-RE will prepare and submit quarterly interim financial reports (IFRs) as per the agreed format and they will be submitted to each government through respective implementing agencies. The report will be submitted to the World Bank and to the countries concerned within 45 days of the quarter to which it is related. One IFR will be prepared which clearly shows the activities of each country. The country returns will be shared with each implementing entity at each participating country. Each participating country implementing entity will then consolidate and prepare an IFR to be submitted to the World Bank. The IFR will clearly show the sources received, the uses of fund (premia paid), the remaining balance in the account and the number of beneficiaries reached during the quarter. ZEP-RE will also prepare and submit to the World Bank and each of the participating countries the annual audited project financial statements as per the agreed format.

(f) External Audit

PriceWaterHouseCoopers (PwC) is currently the external auditor of ZEP-RE. ZEP-RE, for the past three years has received unqualified audit opinions on their financial statements. There is evidence of implementation of external auditor's recommendations. ZEP-RE will engage an audit firm that is technically competent, independent and acceptable to the World Bank who will audit the project funds. The audit ToR will be cleared by the World Bank. The auditors will submit their firm profile to the World Bank for review, and their audit contract and fees will be prior approved by the World Bank before the contract is signed, and it would be a fixed sum contract**.**

(g) Eligible Expenditure

Under component 1, IDA funds will be used to provide premium support to incentivize private financial institutions to provide a package of financial services with drought insurance, savings and payment, to pastoralist groups. The eligibility criteria for service providers and the detailed process of evaluation and approval will be captured in the PIM for Component 1. The key expenditures expected under this component are described below (for Ethiopia, Kenya and Somalia):

i. **Payment of share capital to ZEP-RE from each country for start-up and implementation cost**– 10 percent of Component 1: payment would be share capital from the countries to ZEP-RE to participate in the start-up and implementation costs of the program. This will provide ownership of ZEP-RE and right to dividends. For the countries, this is a better value proposition than paying this amount as a management fee out of the IDA funds. The 10 percent is in line with usual fees for risk pools and is currently applied by ZEP-RE in the management of the COMESA yellow card scheme. This will be recognized as expenditure at the time each country receives documentation confirming their ownership. This expenditure is to be financed from IDA allocation.

ii. **Package of financial services**: based on the agreements to be reached with the service providers, payment of premium will be made. The financial services to be provided include premium payment for insurance coverage, direct savings incentives to pastoralists and reserve layer. ZEP-RE will open a business line for this project which should allow it to clearly track the resources received, the premiums paid, saving incentives and reserve layer payouts provided, and the number of pastoralists that get the services per country. In all the interventions, the eligible expenditure is the premium paid to service providers, and the savings grants and reserve layer payouts to pastoralists following the appropriate procedures laid out in the PIM. Whether the intended beneficiaries obtained the insurance coverage and other services will be guided by the PIM which will detail these processes as well as technically through M&E mechanisms of the project and the surveys to be conducted. This activity will be financed by both IDA and GRiF.

iii**. Capacity building, M&E and implementation cost:** GRiF funds will be used to pay for the capacity building under the program, the implementation cost and M&E. Therefore, eligible expenditure category will be described in the GRiF grant agreement. In order to build ZEP-RE's capacity to sustain the provision of drought insurance after the project ends, operating cost will include capacity building to ZEP-RE and a reasonable percentage of key staff position's salaries to be agreed in the annual work plan and budget overall not exceeding 4% of the grant agreement.

For Djibouti the eligible expenditure will be solely a premium payment to African Risk Capacity for a sovereign climate insurance product to be co- funded by IDA and GRIF.

(h) Funds Flow and Disbursement Arrangement

Fund flow and banking arrangements for ZEP-RE. ZEP-RE will be required to open five US$ accounts, with commercial banks in Kenya that are acceptable to the World Bank, one each for the four participating countries and one for the technical assistance to ZEP-RE to be financed from the GRiF.

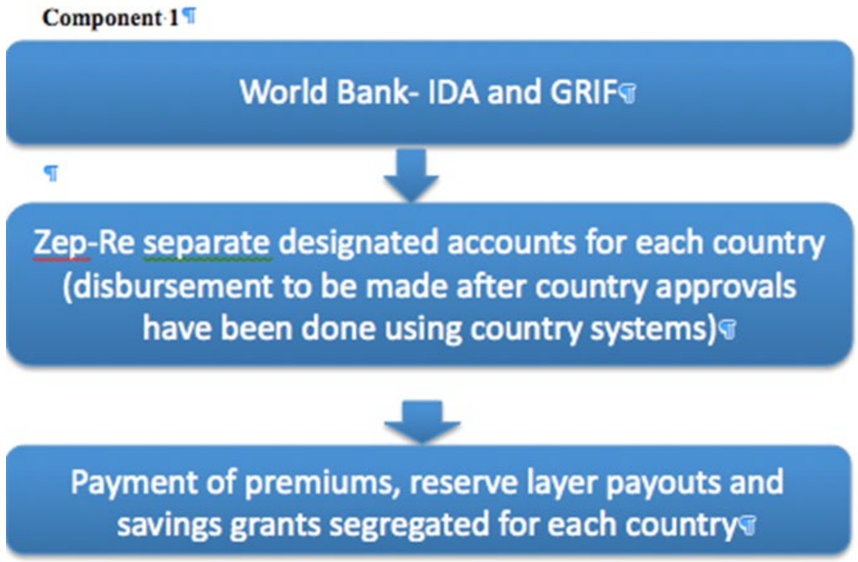
Component 1 will fund premium support to incentivize the provision of digital accounts, savings and insurance to pastoralists. Since a large portion of the risk will be transferred to international markets through reinsurance, the funding will be disbursed in US$ to cover that portion of the premium (reinsurance), required for the project. It is proposed that IDA funding flows directly to ZEP-RE into an account denominated in US$ for this purpose. ZEP-RE, which will be responsible for this component, will share the risk and premium support between the local financial institutions and the international reinsurance beneficiaries in line with the agreed eligibility criteria. For all the countries, the advances and documentation of expenditure for component 1 will be authorized by each country as signatories of the withdrawal applications. Upon receiving resources, ZEP-RE will segregate the funding coming from each country and shall be accounted for separately to show, in terms of number of pastoralists covered, in each country.

Disbursement triggers under Component 1: Advance to the designated account maintained by ZEP-RE will be used for all activities. A forecast of payment will be presented by ZEP-RE to each of the countries based on expected amount for increasing share capital, forecast of potential list of beneficiaries and services anticipated. Once this is cleared by the government and the World Bank, advance will be provided to ZEP-RE into the accounts opened for each country, with withdrawal applications approved by each country. Advance and documentation under each are described below:

- Share capital to ZEP-RE from each country – the amount will be requested as part of the initial cash forecast request by ZEP-RE. Documentation of expenditure will be through quarterly IFR with the evidence of increase of share capital for each of the countries.
- Package of financial services. ZEP-RE will request advance payment based on a forecast of pastoralists to be covered in each country. Actual premium payments and saving grants will be reported through IFRs which will be documented based on approval of the governments.
- Reserve layer. Advance payments will follow the same procedure as for the package of financial services but will only be disbursed if the insurance triggers are not met but there is concern that drought conditions prevail. The triggers for payouts from the reserve will be objective and pre-agreed to align with the established disaster management processes used within each country, to be defined in the PIM. At a minimum, there must be a declaration of drought by the governments or disaster agencies, the list of pastoralists and amounts to be provided under the reserve layer, and approval by the respective governments on this request.

The technical assistance aspect of Component 1 funded by GRiF will be disbursed based on approved annual work plan and budget and two quarters of cash forecast to be submitted by ZEP-RE. The GRiF grant will become effective once ZEP-RE has adopted the Component 1 PIM and disclosed its ESMS, and ZEP-RE may use some of the funds to be fully prepared for the opening of the insurance enrollment season.

Figure 1.1. Component 1 Fund flow and disbursement Arrangements – Zep-Re



(i) FM Risks

The financial management risk of ZEP-RE is assessed to be Substantial. ZEP-RE is new to implementing World Bank financed operations. The operation is also complex involving four different countries, multiple service providers in each country which require separate financial reporting and external audit reviews. ZEP-RE is also understaffed in its project management unit to manage DRIVE. The following risk mitigating measures have been agreed: component 1 will have its own operations manual laying out the relationship between ZEP-RE and the countries as well as its fiduciary responsibilities; the project unit will be strengthened with further staffing; internal audit will be carried out and report submitted to the World Bank; external audit ToR agreed and capacity building activities. The FM action plan is summarized below.

Table 1.2. FM action Plan

Findings/Issues	Actions Proposed	Responsible	Targeted Date
The project unit is understaffed and not able to manage DRIVE properly	ZEP-RE will designate an accountant to work on the project. During implementation, the need for additional accounting staff will be assessed and where necessary additional staff may be hired for the project based on a ToR acceptable to the World Bank	ZEP-RE	FM Within 1 month after effectiveness
This is ZEP-RE's first engagement with the World Bank hence there is capacity gap in understanding policies, procedures and deliverables	Conduct regular capacity building training	ZEP-RE Project Manager	Continuous, with the first being 3 months after effectiveness
With the regular business lines and involvement of the 4 countries for DRIVE, ZEP-RE may not be able to produce country specific reports which is a requirement	The project will be set up as a separate entity in Sun system for each country to allow for effective financial reporting to the World Bank.	ZEP-RE	FM Within 1 month after effectiveness
Irregularities in the implementation of component 1 may not be detected early if dependence is only external audit reviews	Internal audit department to review the forecast and TA every six months with the reports submitted to the World Bank 60 days after the end of the semester.	Internal Audit; Project Manager, FM	Every six months after disbursement

8. **Procurement.** Since IDA resources are used for premium support, there is no procurement activity envisaged under Component 1 for the IDA funds. However, Component 1 has an additional grant from the GRiF, to which the World Bank procurement regulations will apply, thus the analysis below is provided for the GRiF grant.

(a) Procurement Regulatory Framework and Management Capability. The procurement procedure in ZEP-RE, as a commercial entity, is governed through an internal Procurement policy and procedures issued by the Finance department dated May 2021. The policy details Procurement Governance to ensure procurement of all goods and services are obtained at cost-effective prices, at the required specifications and quality and are delivered in time. However, it is noted that the policy framework as it is developed and executed is basic and cannot be relied on for the project implementation.

(b) Integrity and Oversight: The internal Procurement Policy and Procedures provides for Code of Conduct governing all staff involved in the procurement processes to ensure that employees will conduct themselves in a professional and ethical manner, maintain high standards of integrity and use good judgment in all the dealings; management of Conflict of Interest and guidelines on accepting Gifts from Vendors. ZEP-RE has not established an internal dispute resolution mechanism to handle any procurement related complaints that may emerge during the procurement process.

(c) Procurement process and market readiness: ZEP-RE undertakes very low value procurements currently mainly under goods and non-consulting services. Though the overall management capacity of the agency is adequate, the procurement function is organized under the Finance department staffed with only one procurement officer. This arrangement is found to lack the requisite capacity to handle the procurement activities under the project. There is no evidence to suggest that market access is restricted as the market do not appear to be a constraint in the current active private sector participation. There are sufficient private sector suppliers and consultants actively bidding and working on development projects to ensure prices are competitive.

(d) Procurement Complexity*:* The expected procurements under the project are not complex as they will be consultancy services and minimal procurement of goods. However, ZEP-RE lacks procedures and experience in the envisaged selection of consultants using Quality and Cost-Based Selection (QCBS) and Consultants' Qualification Selection and hence, will follow the procedures in the Procurement Regulation and use the World Bank's appropriate SPD.

(e) Procurement Risk*:* Based on the above assessments and findings, the overall procurement capacity and risk is assessed as **High.** Mitigation measures are in Table 1.3.

Table 1.3. Component 1 Procurement Risk Mitigation Measures

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Lack of adequate procurement manual	Develop a procurement manual for the project management	ZEP-RE	By project effectiveness
Lack of experience in implementation of World Bank procurement Regulations and use of SPD's.	Training on the World Bank Regulations and use of SPD's.	ZEP-RE	By project effectiveness
Lack of defined Procurement plan.	Aligning procurement plans to the approved budgets	ZEP-RE	By project effectiveness
Lack of a properly established procurement unit with adequate capacity.	Hire procurement specialist to handhold the agency's staff on procurement process management	ZEP-RE	By project effectiveness

Component 2

Table 1.4. Component 2: indicative cost breakdown

	Djibouti	Ethiopia	Kenya	Somalia	Total
IDA	**1.5**	**70**	**65**	**40**	**176.5**
- *Upgrading quality infrastructure*		20	8	18	46
- *Trade facilitation and Trade logistics*		26	11	8	45
- *Private investment in Livestock Value Chain ("LVC") de-risking facility*	1.5	20	40	10	71.5
- *Project management*		4	6	4	14
HoA MTDF	**5**				**5**
- *Upgrading quality infrastructure*	2.34				
- *Trade facilitation and trade logistics*	2				
- *Project management*	0.66				

Djibouti

9. **The project's Component 2 will be implemented by the Ministry of Agriculture, and its existing project implementation unit (PIU) for the AfDB "Building Resilience for Food and Nutrition Security in the Horn of Africa" Project**. The facility to de-risk private investment in the livestock value chains will be managed by the *Centre Pour le Leadership et l'Entreprenariat* (CLE) with the Chamber of Commerce.

10. **The Ministry of Agriculture (MoA) will oversee the overall coordination.** Due to the multisectoral nature of the project, the Ministry of Finance will set up a Project Steering Committee (PSC) responsible for carrying out the following: (i) oversee overall implementation of the project; (ii) facilitate inter-agency coordination in project implementation; and (iv) review and approve annual project work plans and budgets. The PIU shall serve as the secretariat of the PSC. The PSC will comprise representatives from the main government stakeholders, Ministry of Finance, Ministry of Agriculture, Ministry of Commerce, Port and Free Zones Authorities of Djibouti, Chamber of Commerce, CLE, ZEP-RE and other government agencies as deemed appropriate. The PSC will be chaired by the Secretary General of the Ministry of Agriculture and the Secretary General of the Ministry of Economy will be the vice-chair. The committee will meet on a bi-annual basis and ensure a smooth implementation and coordination based on a common action framework.

11. **To ensure smooth implementation and coordination, a Project Technical Committee (PTC) will be established,** composed of technical representatives of government institutions and agencies, that have active engagement in the project including, Ministry of Finance, Ministry of Agriculture, Ministry of Commerce, Doraleh Multipurpose Port, Chamber of Commerce, the CLE and ZEP-RE. The PTC will meet regularly (at least monthly) to technically review progress on the implementation of the agreed work plan, address any challenges, and take up to the MoF any issues that may need high-level support or intervention. The Ministry of Agriculture will organize technical meetings and ensure active participation. The Secretary General of the Ministry of Commerce will chair this PTC.

12. **The implementation arrangements under the proposed project will be governed by the guidelines and procedures set out in the Project Implementation Manual (PIM).** The PIM includes operational procedures, FM, procurement methods and procedures, E&S standards, and M&E of the project and procedures for overall project management. The PIU will be responsible for the fiduciary aspects of all sub-components by working with the relevant institutions, and private sector players.

13. **Financial management**

(a) Organization and Staffing

Component 2 will be implemented by the MoA and its existing PIU for the AfDB project. The existing PIU consists of a Project Coordinator, a Finance Officer, a Procurement Officer, and an Assistant. The PIU's capacity will be strengthened with a qualified Finance Officer who will manage the FM and disbursements of the ensigned project. The World Bank will provide the necessary training for the new Finance Officer on the World Bank's financial management and disbursement guidelines.

The facility to de-risk private investment in the livestock value chains will be managed by CLE and the Chamber of Commerce. CLE is a center within the Ministry of Finance (MoF) and currently implementing the ongoing "Support for Women and Youth Entrepreneurship Project". The funds flow arrangements will follow the ones currently used in the Entrepreneurship project where the PIU will sign agreements with CLE, and the Chamber of Commerce as appropriate, and the procedures will be detailed in the Component 2 PIM.

(b) Budgeting

The project's budget will be part of the national budget. The PIU will prepare a separate annual budget and disbursement plan for the project, covering each fiscal year, and will be broken down by quarter and submitted with the quarterly unaudited IFRs. The PIU will monitor the significant deviations in the disbursement plan and justify them.

(c) Accounting and Financial Reporting

The project will follow the International Public Sector Accounting Standards cash accounting. The PIU will purchase an additional license of its current used accounting software "TOMPRO" for the ensigned project. The system will record daily transactions and produce unaudited IFRs. The PIU will prepare consolidated quarterly IFRs and annual project financial statements. The content and format of the IFR were agreed during negotiations.

The PIU will submit the consolidated IFRs to the World Bank within 45 days of the end of each quarter. The annual project financial statements will be prepared on an annual basis and will include the same information as the IFRs. They should be ready within three months after the end of each fiscal year and available for the audit.

(d) Internal Controls and Internal Audit

The Ministry of Agriculture has internal control frameworks that do not adhere to the World Bank requirements. Therefore, the project will be implemented using ring-fenced authorities within the PIU. The PIU will prepare a PIM, which will define the executing agency's roles, functions, and responsibilities. Furthermore, the PIM will include the eligibility criteria, governance, and approval structure for the facility to de-risk private investment in the Livestock Value Chains.

The PIM will contain a separate chapter on financial management detailing financial and accounting management procedures and will also include internal control procedures including fixed asset with full information. The PIU will ensure that requests for funds commitments/withdrawals, invoices, and payment requests are consistent with signed contracts before processing and releasing funds/payments. The PIU will also monitor and report on the utilization of project funds, including the fiduciary standards and the reliability of the FM systems.

(e) External Audit

An external auditor will be appointed following ToR acceptable to the World Bank. The audit must be carried out per international auditing standards. The auditor must produce: (i) an annual audit report including his opinion on the project's annual financial statements; (ii) a management letter on the project's internal controls. The annual reports will be submitted to the World Bank within six months of the close of each fiscal year. The PIU will ensure that the recruitment of the external auditor takes place no later than six months after the entry into force of the project. This will allow the auditor to start the fieldwork early to deliver the audit report and management letter on time, thus avoiding any delays. The Auditor’s ToR will be expanded to conduct annual stock-taking of the project’s stock of equipment and goods.

(f) Funds Flow and Disbursement Arrangement

The project funds will be disbursed in accordance with World Bank guidelines and should be used to finance project activities. The project will use the following disbursement methods: advances, reimbursements, direct payments, and special commitments. Two US Dollars Designated Accounts (DA) will be opened for this component managed by the PIU: (i) one for the funds from the HoA MTDF grant covering the activities of sub-components 2.1, 2.2, 2.4 specified in Annex 2; (ii) a second for the funds from the IDA credit covering sub-component 2.3 i.e. the private investment in Livestock Value Chain (LVC) de-risking facility. Sub-accounts will be opened in Djibouti Francs, where funds will be transferred from the DA and used for all local payments.

The DAs will be opened in a commercial bank in Djibouti acceptable to the World Bank. Withdrawals of eligible expenditures will be made based on Statements of Expenditure (SOE) following the applicable procedures as detailed in the Disbursement and Financial Information Letter (DFIL) and the Disbursement Handbook the World Bank. The PIU will be responsible for submitting replenishment requests monthly. All withdrawal requests must be fully documented, retained, and made available for review by the Bank and project auditors. All disbursements will be subject to the terms of the funding agreement and the procedures defined in the DFIL.

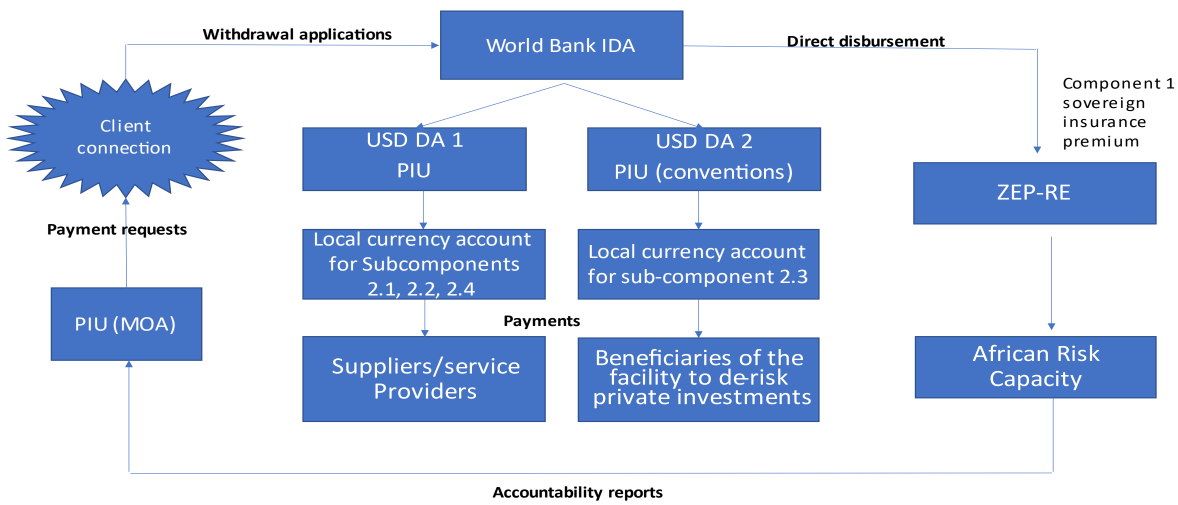
(h) FM Risk

The overall financial management risk is rated “Substantial.” Key risks and mitigating measures are presented below.

Table 1.5. FM Action Plan

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Equipment and testing laboratory supplies are provided to ineligible laboratories or being missed used	A project Fixed Assets Register will be prepared, regularly updated, and physical verification of assets routinely carried out,	MoA	During implementation
Supported investments under the De-risking private investment on the value chain are not provided to eligible pastoralist groups and entrepreneurs as per the eligibility criteria	A dedicated manual will be prepared for the de-risking private investment facility, MoA/managers of the facility to ensure that only eligible Pastoralist groups and entrepreneurs will receive the investments as per the eligibility criteria	MoA and managers of the Facility	By project effectiveness During implementation
Limited capacity of the Ministry of Agriculture to implement the project	Ring-fenced FM and disbursement arrangements within the PIU A PIM will be prepared which will contain a chapter on financial management describing the financial management procedures, including internal controls FO will be recruited to strengthen the capacity of the PIU	MoA	During implementation By project effectiveness To be agreed during negotiation
The Ministry of Agriculture falls under the audit jurisdiction of the Supreme Audit Institution that has limited capacity to audit the project following international audit standards.	The project’s annual financial statements will be audited a private firm audit firm in accordance with ToR acceptable to the Bank and will conduct annual stocktaking of equipment/goods purchased by the project.	MoA	Annually

Figure 1.2. Fund flow and disbursement Arrangements – Djibouti (Components 1 and 2)



14. **Procurement**

(a) Procurement arrangements. The Project implementation Unit (PIU) within the MoA in charge of AfDB projects will manage the procurement. The PIU has two procurement staff and the performance under AfDB procurement is currently rated as satisfactory. However, the PIU has not yet used WB procurement procedures. As per the PPSD and reflected in the initial procurement plan, procurement will mainly pertain to selection of consultants and acquisition of some goods, non-consulting services and information systems. This scope of procurement is anticipated as manageable by the PIU with support from a procurement officer conversant with WB procurement procedures, to be hired through a competitive selection process.

(b) Procurement Regulatory Framework and Management Capability. The national procurement system is in line with international procurement standards. However, the national procedures still have limitations, particularly in terms of ineffective complaint mechanism and lack of provisions on E&S standards. WB standard procurement documents will be used for international and national procurement competition. The PIU has a clear system of accountability with procurement processing overseen by the national procurement commission and it has gradually improved procurement management capacity.

(c) Integrity and Oversight. As per national institutional regulations, the oversight of procurement processes is conducted through the centralized national procurement commission for every contract above DjF 5 million (US$28,000). National supreme audit institutions have also the right to oversight activities. As of this stage, no known report on fraud and corruption or complaint was reported on the implementing agency.

(d) Procurement Process. Procurement envisioned in this project will mainly consist of selection of consultants for technical assistance/studies, small goods; information system and contracting a sovereign climate insurance. As per the PPSD's market analysis, the latter will be procured using the direct selection of African Risk Capacity (ARC), which is the only service provider of such service. The remaining major contracts will be procured approaching international market, using WB standard procurement documents. Procurement processing under the agency has not shown limitation in competition or issues in contract management.

(e) **Procurement Complexity**. Procurement under the project is of moderate complexity where the scope of the Procurement is certain and easily quantifiable. For the envisioned information system, the PIU will recruit technical assistance to support the preparation of technical specifications, bidding document and bids evaluation. All procurement will be centralized within the PIU with supervision by the national procurement commission. It is anticipated that delivery/contract implementation related risks are largely within the supplier'/contractor's control, even though impact of covid-19 remains a potential risk.

(f) **Market Readiness**. The international market will be approached for the major consultants' contracts and some individual consultants, while the local market should be suitable for the remaining contracts. The latter was found responsive to Djibouti opportunities as observed in the implementation of the active projects in Djibouti. The latter was found responsive to Djibouti opportunities as observed in the implementation of the active projects in Djibouti. ARC will be contracted using single source selection method and following commercial practices selection arrangements with due inclusion of WB provisions on fraud and corruption and right to audit clause in the contract

(g) **Procurement risk**. Given the existing capacity within the PIU in implementing AfDB projects and the limited complexity and low value of contracts envisioned, the procurement residual risk is assessed as **moderate**. Major risk factors and proposed mitigation measures are summarized in the table below.

Table 1.6. Procurement Risk Mitigation Measures

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Risk of excessive workload on the staff for this additional project leading to procurement delay	1.The PIU to avail an additional resource person to support this project. 2.Procurement Training to the PIU and the new procurement officer. The PIU should make sure there is proper procurement planning and timely processing in close coordination with the national procurement commission.	PIU WB PIU/WB	one month after effectiveness
Impact of covid-19 to procurement competition or contract execution	Advertisement of procurement opportunities should be as wide as possible to maximize competition in a context of covid-19 environment and regional conflict.	PIU	Ongoing

Ethiopia

15. **The Ministry of Agriculture (MoA) and Ministry of Trade and Regional Integration (MoTRI) will collaborate to implement jointly the Component 2 of DRIVE, with MOA as the main Project Coordination Unit (PCU)**. Each will contribute with their expertise and be responsible for their respective activities, and the project will have two coordinators, one from MoTRI and one from MoA. The MOA will ensure the overall coordination and reporting of Component 2 activities and will also oversee the implementation of Component 1 by ZEP-RE. MoA and MoTRI will sign a MoU to define roles, responsibilities, and activities under Component 2. The LVC activity will be overseen by MoA but will be implemented by the financial intermediary, Development Bank of Ethiopia (DBE). Studies are still ongoing to define the implementation of this activity hence a disbursement condition is set until necessary assessments and arrangements are completed.

16. **MOA and MOTRI will each have a PIU fulfilling the fiduciary responsibilities (financial management, procurement, E&S risk management) for their own activities.** For MoA, the fiduciary responsibilities will be undertaken by the existing PIU currently implementing the AfDB Project on Drought Resilience and Sustainable Livelihoods Program. The MoA PCU will oversee consolidating all reports on Component 2 activities and submit them to the Ministry of Finance (MoF) and World Bank. For MoTRI this will be undertaken by the existing implementing entity for the National

Quality Infrastructure Project (NQIDP- P160279). The NQIDP is under MoTRI and aims to improve the delivery of local quality assurance services to enterprises in Ethiopia. Once the NQIDP closes, the same PIU will fully transition to implementing DRIVE Component 2.

17. **As a result of the multisectoral nature of the project, the MoA will set up a Project Steering Committee (PSC) which will be co-chaired with MoTRI and will be responsible for carrying out the following**: (i) oversee overall implementation of the project; (ii) provide policy guidance for project implementation; (iii) facilitate inter-agency coordination in project implementation; and (iv) review and approve annual project work plans and budgets. The MoA PIU shall serve as the secretariat of the PSC in coordination with MoTRI. The PSC will comprise representatives from the main government stakeholders MoF, MoTRI, MoA, National Bank of Ethiopia (NBE), Ministry of Irrigation and Lowland Areas (MoILA), and other government agencies as appropriate, as well as ZEP-RE. The PSC will be chaired by the State Minister for MoA and co-chaired with State Minister of MoTRI. It will include the State Ministers of all the members of the PSC, and other government agencies as deemed appropriate. The committee will meet on a bi-annual basis and ensure a smooth implementation and coordination on the basis of a common action framework. ZEP-RE will attend the steering committee to provide a strong link with Component 1.

18. **To ensure smooth implementation and coordination, a Project Technical Committee (PTC) will be established,** composed of technical representatives of government institutions that have active engagement in the project including MoA, MoTRI, MoF, MoLI, National Bank of Ethiopia (NBE), ZEP-RE and any stakeholder that could come onboard during implementation. The PTC will meet regularly (at least monthly) to technically review progress on the implementation of the agreed work plan, address any challenges, and take up to the relevant ministry any issues that may need high-level support or intervention. The PIU's project coordinators (both from MoA & MoTRI) will be the responsible to regularly organize this meeting and ensure active participation in coordination with ZEP-RE.

19. **The implementation arrangements under the proposed project will be governed by the guidelines and procedures set out in the PIM.** The PIM includes operational procedures, FM, procurement methods and procedures, E&S standards, and M&E of the project and procedures for overall project management. The two PIU will be responsible for the implementation of their respective activities under Component 2 by working with the relevant institutions, private sector players, and regulatory agencies.

20. **Financial Management**

(a) Organization and Staffing

The MoA has a well-established FM function that is familiar with World Bank requirements. The MoA will be responsible for the overall financial management aspect of the project and is managing several World Bank financed operations. DRIVE will be placed within the PIU established for managing two AfDB operations with a total cost of US$83 million. The MoA has an appropriate organizational structure developed based on public service institutional arrangements. The PIU is currently staffed with financial specialists, assistant accountant and a cashier who have all the necessary qualifications and experience. For DRIVE, an additional accountant is proposed for the PCU in MoA. For managing the activities to be implemented by the MoTRI, the PIU within MoTRI already responsible for managing the World Bank financed operation NQIDP will implement DRIVE. It is staffed with a financial management specialist, one accountant and a cashier. As the existing project closes in June 2023, the PIU should be retained or recruited with the same number of accountants. Both Ministries will have the responsibility to ensure that qualified and experienced staff remain throughout the life of the project.

(b) Planning and Budgeting

The MoA will follow the budget process of the government, and the budget for Component 2 should be cleared and approved by the World Bank. The annual work plan and budget for the activities to be implemented by MoTRI will be prepared by the PIU within the ministry and submitted to the MoA PCU for consolidation and submission to the World Bank as well as the MoF. Overall, there are fair budget control in both institutions. For project purposes, the ministries will be required to maintain up to date budget tracking records and budget versus actual expenditure variance analysis will be prepared quarterly as part of the IFRs and used as a management tool for decision making.

(c) Accounting Systems, Policies, and Procedures

The Government's accounting policies and procedures (modified cash basis of accounting) will be used for accounting of the project. Additionally, an FM Manual will be developed as part of the PIM covering all relevant FM aspects. The FM Manual, as part of the PIM, should receive the World Bank's 'no-objection' before Project effectiveness.

(d) Internal Controls and Internal Audit

MoA and MoTRI uses the government's internal control procedures. These procedures are incorporated in the financial administration proclamation, regulation, directives, and various manuals. The reviewed internal control systems for both ministries were found to be adequate. Project implementation would be subject to the overall policies and procedures of the government, supplemented by the FM manual. Both entities are expected to use the FM Manual, apply all policies and procedures, monitor and safeguard assets as well as ensure segregation of duties.

The MoA and MoTRI have established internal audit units that report to the MoF. The internal audit units at both Ministries will incorporate the project audit in their annual audit plan and review the project's books of accounts regularly and produce reports. Training will be provided to the internal auditors to enhance their capacity.

(e) Financial Reporting

MoA will have the responsibility to consolidate the quarterly report received from MoTRI with its own and will submit one financial report quarterly to the Bank within 45 days of the quarter end. The IFR content and template will be agreed during negotiation.

(f) External Audit

The audit firm recruitment will be made by the MoA in consultation with the Office of Federal Auditor General**.** The auditor will conduct audit on the project financial statements and will visit both the MoA and MoTRI. The Office or acceptable audit firms approved by the Bank could be delegated to conduct the audit for the project. The audit ToR will be agreed during negotiations. For DRIVE, both entities will be responsible to take action on audit findings that may be raised for their respective activities. MoA will consolidate such action plans and status reports and submits to the Bank not later than three months after the submission of the audit reports.

(g) Funds Flow and Disbursement Arrangement

IDA funds will be deposited into a separate designated account to be opened by the MoA at the National Bank of Ethiopia (NBE). The authorized ceiling of the Designated Account will be two quarters of forecasted expenditure based on the approved AWPB. Funds from the designated US$ account will be further transferred into Birr account to be held by MoA. MoTRI will also open a local currency account in the name of the project. MoA will transfer resources to MoTRI based on their AWPB and take into account the amount of resource still not used. The fund flow arrangements for the LVC will be done through MoA to DBE which will open a local and/or foreign currency account to operate the activity once the necessary disbursement conditions are met. The detail will be defined in the operations manual for component 2.

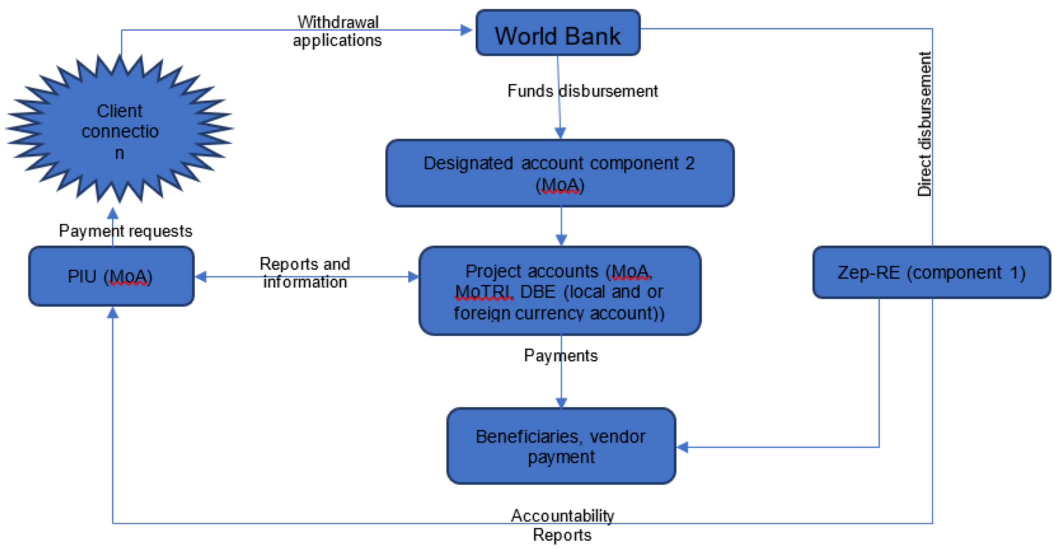
(h) FM Risk

Based on the above assessment and findings, the FM risk for Ethiopia is assessed as Substantial. Key risks and mitigating measures are summarized below.

Table 1.7. FM Action Plan

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Delay in AWPB results in delayed implementation as cash release also depends on the clearance of this document	The project AWPB for the following year is finalized and submitted to the Bank for no objection not later than March 31st of each year.	MoA after consolidating input from MoTRI	Annually
Integrated Financial Management System (IFMIS) currently not able to report on project details hence report to be issued may not meet project requirements	Develop a chart of account suitable for the project to accommodate the project reporting requirement and ensure project transactions are reflected in IFMIS complying with government requirements	MoA	As part of the FM manual preparation
Lack of finance staff and limited capacity will affect project implementation and compliance with reporting and audit requirements	Existing PIU staff at both ministries are already assigned for the project. However, additional accountant will be recruited at MoA in addition to the current staffing and maintain these positions at MoA and MoTRI throughout the project life. Provide annual training to all accountants and internal auditors	MoA and MoTRI	Ongoing
Internal audit units are understaffed and mostly not aware of new projects coming to ministries.	MoA to fill vacant positions in the internal audit unit. Internal audit to include the project in the annual audit plan based on risk assessment conducted and provide the required review. Training will be provided to these units.	MoA and MoTRI	During implementation
Lack of clarity over the de-risking private investment facility	The arrangements will be clearly defined in the PIM and a disbursement condition will be put in place for necessary assessments to be carried out before disbursement	MoA	PIM is effectiveness condition. Additional disbursement conditions apply

Figure 1.3. Funds Flow and Disbursement Arrangements – Ethiopia (Components 1 and 2)



21. **Procurement arrangement.** The MoA and MoTRI will be responsible for implementing their respective procurement activities under Component 2. However, the Procurement Regulation does not apply to procurement of Goods, Works, Consulting and Non-consulting services financed by the project through loans made by eligible financial intermediaries as envisaged under sub-component 2.3. For other parts of component 2: procurement in MoA is managed by the Procurement Directorate that reports to the senior management body in the ministry; likewise, the procurement activities in MoTRI will be managed by the procurement team that reports to the Finance and Procurement Directorate, responsible to oversee Procurement and Financial Management functions in the Ministry. The World Bank carried out a procurement capacity assessment in both MoA and MoTRI and used a methodology for assessing procurement systems to provide findings and recommendations.

(a) Procurement Regulatory Framework and Management Capability: The Public procurement at the federal agencies including MoA and MoTRI is governed by the Public Procurement and Property Administration Proclamation (No. 649/2009) and the procurement Directive issued in June 2010 and amended in December 2015. Among other provisions, the proclamation stipulates the organization responsible for procurement, the key procurement principles and operational procedures, and the complaint-handling system. It also reestablishes the Federal Public Procurement and Property Administration Agency as regulatory body. Currently the Procurement Agency is revising the procurement proclamation to ensure that it accommodates emerging developments and addresses gaps identified in the assessment. In accordance with the proclamation, MoA and MoTRI have procurement unit responsible to carry out the day-to-day procurement activities in the respective ministries. The MoA established a procurement Directorate which, at the time of the assessment, was staffed with 15 regular procurement officers and 11 procurement officers working in donor financed projects. Since the procurement officers are fully engaged in their regular responsibility, there is no capacity to absorb additional responsibility that comes along with the new project. The procurement function in MoTRI is organized as a "Team" and staffed with 5 experts (1 Team Leader and 4 procurement staff) with adequate qualification and experience in procurement. However, the majority of the procurement in the ministry are low value and standard procurement and thus, the team lacks experience on complex procurement. The team has no prior experience on World Bank financed projects. Both MoA and MoTRI have established Bid Endorsing Committees which reviews and approves procurement decisions for large value activities in accordance with Government's procurement procedure. MoA and MoTRI intend to assign the project management and procurement responsibilities to the experienced PIUs that are already established and functional in the respective ministries. The PIU that is coordinating the AfDB project, staffed with experienced procurement experts, will be assigned to implement the project from the MoA. Likewise, the NQIDP hosted in MoTRI is staffed with experienced procurement experts, and has adequate experience in the procurement regulation.

(b) Procurement integrity and oversight: Both MoA and MoTRI maintain the Internal Audit and Inspection Department that ensures internal control through an audit and follow up on corrective actions. The external audit mechanism is established as an independent body accountable to the highest law-making authority in the Federal Government. The Procurement Agency carries out regular procurement audit in all major procuring entities including MoA and MoTRI. However, the procurement audit performance has limitations: the internal auditors do not have staff to adequately cover donor financed projects and the proclamation has structural limitation in providing enforceable and independent audit recommendations. The proclamation provides three tiers complaint handling system: head of the Procurement Directorate, Complaint Handling Board and the formal court. The Board lacks capacity to provide timely and independent decisions; the practice to delegate the complaint review and decision authority to officials involved in the procurement decision contradicts the intention of the complaint procedure to ensure independence of the complaint review process at all levels. Regarding corruption, the assessment didn't come across cases related to fraud and corruption in MoA or MoTRI.

(c) Procurement Process: Open bidding is the default procurement method for which notices are published in the newspaper having national circulation (Ethiopian Herald). The associated bidding documents are prepared using the Standard Bidding Documents (SBDs) issued by the Procurement Agency and contains all the necessary sections including standard conditions of contracts that allow appropriate allocation of responsibilities, risks and liabilities among contracting parties. However, the SBDs and the resulting bidding documents lack provisions as prescribed in the Regulation paragraph 5.4 (c) and (d) related to World Bank's Anti-Corruption Guideline and E&S risks and impacts. The client shall ensure that the bidding documents are consistent with the requirements of the provision or use the World Bank's SPDs even for procurement from the national market. Recently, the World Bank issued a modified SPD applicable for works procurement from the national market which will be used in this project. Though evaluation of bids were made with strict adherence to the criteria specified in the bidding documents, in some cases, the use and application of post qualification criteria has been found to be inappropriate. Most importantly, the evaluation of bids misses consideration of materiality which leads to loss of competitive bids with minor deviation. There are no practices of publishing procurement award information in accessible media in both ministries. Both MoA and MoTRI lack dedicated structure to manage contracts which are delegated to the respective procurement units without adequate capacity and structure. As a result, contracts face risk of failure, time and cost overrun.

(d) Procurement complexity. According to the PPSD, there are no procurement activities that require unique arrangement, documents, methods or approach. Most of the envisaged procurements could be carried out using the regular approach and standard documents. However, most planned activities are related to selection of consultants to carry out feasibility studies, which is relatively complex and requires technical expertise in drafting ToR, evaluating technical proposals and managing contracts. The MoA and MoTRI shall enhance their technical capacity in the relevant areas by hiring qualified experts (as is the case for drafting suitable specifications for procurement of laboratory equipment and IT facilities). If the feasibility studies come up with recommendations to construct the targeted facilities like animal transfer stations, rest points, quarantine stations and ports, the MoA and MoTRI would enhance their capacity to carry out works procurement possibly by hiring a civil engineer and supervision consultant.

(e) Market Readiness. The procurement activities are standard that are fairly available in the local market. However, there are some consultancy assignments that may require approaching the international market. MoA and MoTRI would initiate the activities as early as possible by preparing quality ToR and using fit for purpose selection approach. The long queue to access foreign currency, shortage and price hike of construction inputs in the market are possible hurdles to successfully complete procurement and contracts within the planned timeframe and budget. The market in a fragile environment may suffer from limited interest from international contractors/consultants or high price bids/proposals because of country security risk, which may lead to low response to published tenders. Flexible approach will be applied to address the restrictions due to the ongoing conflict, COVID-19 and fragility in the procurement environment.

(f) Procurement Risk: Based on the above assessments and findings, the overall procurement capacity and risk is assessed as **Substantial**. Mitigation measures are in the Table below.

Table 1.8. Procurement Risk Mitigation Measures

Findings/Issues	Actions Proposed	Responsible	Targeted Date
The Procurement Directorate in MoA does not have capacity to absorb additional procurement responsibility and procurement team and staff in MoTRI lack capacity and prior experience on World Bank financed projects	(i) The project will establish Project Implementation Units both in MoA and MoTRI that are staffed with qualified procurement experts (at least 2) or assign the existing PIUs to continue implementing the new project. (ii) The PIUs ill establish clear working relationship with the respective permanent procurement teams and ensure that the procurement teams in the permanent structure involve in the procurement processing for the new project.	MoA and MoTRI	By project effectiveness
The procurement oversight and audit are inadequate	(i) The World Bank will carry out regular supervision in addition to the review of procurement documents and decisions through post and prior review procedures (ii) The respective PIUs will implement mitigation measures	World Bank PIUs	Throughout project implementation
Use of inappropriate standard procurement documents, ToRs, inappropriate and protracted bid evaluation and contract management leads to noncompliance and time and cost overruns	(i) Use SPD for procurement of small works contract from the national market (ii) Hire technical experts including civil engineer and supervision firms to successfully complete works contract and consulting services, as appropriate (iii) Provide training to procurement and technical experts on bidding document preparation, evaluation and contract management	PIUs	Throughout project implementation Within 6 months after effectiveness
The restrictions due to the ongoing internal conflict and COVID is likely to affect procurement performance in the project.	Employ flexible procurement approaches available in the procurement regulation based on discussion and agreement with the World Bank on case-by-case basis.	PIUs	Throughout project implementation

<u>**Kenya**</u>

22. **The Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MoALFC), through the State Department of Livestock (SDL), will undertake the management of Component 2 and the overall coordination of the project.** SDL will involve the Kenyan counties and other countries. SDL's role will be to coordinate the implementing agencies and counties; provide the enabling environment for pastoralists' access to financial services and for the mobilization of private investment in the livestock value chains, through inter alia the formation of pastoralist groups, and the operationalization of the Livestock Master Plan and Livestock Identification and Traceability Systems; ensure compliance with public accountabilities requirements; provide technical advice on the private investment priorities; advise on complementary resilience building activities by the pastoralists; regular reviews of beneficiary data; monitoring and evaluation. The project will have coordination structures in each participating county to support engagement at the county level, including on the sensitization of stakeholders, awareness creation and capacity building, groups' formation and pastoralists' registration. The PIU in SDL shall be anchored in the Directorate of Livestock Production. The facility to de-risk private investment in the livestock value chains will be implemented by Kenya Development Corporation (KDC), a development financial institution under the National Treasury in partnership with Agricultural Finance Corporation (AFC). KDC will work with SDL and counties to identify and promote private sector investment in livestock value chain. The MoALFC and National Treasury will enter into a subsidiary agreement with KDC to implement activities related to private sector support. The project will hire a coordinator with appropriate skills to coordinate between implementing agencies, the HoA secretariat, and participating governments.

23. **As a result of the multisectoral nature of the project, the MoALFC in coordination with National Treasury and Council of Governors (CoGs) will set up a Project Steering Committee (PSC) responsible for carrying out the**

following: (i) oversee overall implementation of the project; (ii) provide policy guidance for project implementation; (iii) facilitate inter-agency coordination in project implementation; and (iv) review and approve annual project work plans and budgets. The PIU in SDL shall serve as the secretariat of the PSC. The PSC will comprise representatives from the main government stakeholders National Treasury, CoG, ZEP-RE, SDL, Ministry of Industrialization, Trade and Enterprise Development, KDC, AFC, representatives from the private sector and from pastoral organizations and other government agencies as deemed appropriate. The PSC will be chaired by the PS SDL with the Chair of the Arid and Semi-Arid Lands and Disaster Management Committee of the Council of Governors acting as co-chair. The committee will meet on a bi-annual or need-arise basis for implementation and coordination based on common action framework.

24. **To ensure smooth implementation and coordination, a Project Technical Committee (PTC) will be established**, composed of technical representatives of government institutions that have active engagement in the project including SDL, CoG, National Treasury, Ministry of Industrialization, Trade and Enterprise Development, ZEP-RE, KDC, AFC and any other stakeholder that could come onboard during implementation. The PTC will meet regularly (at least monthly) to technically review progress on the implementation of the agreed work plan, address any challenges, and take up to the MoALFC any issues that may need high-level support or intervention. The SDL Director of Livestock Production will be the chair of the PTC and the project coordinator will serve as secretary.

25. **Financial Management**

(a) Organization and Staffing

Each of the implementing agencies will handle its own allocated funds to implement relevant activities. At SDL, accounting of the project accounts at MoALFC will be handled by the project FM unit that is headed by a qualified Principal Accountant with adequate experience in donor funded project. KDC has a finance and accounts department which has 10 staff headed by the Deputy Director Finance. The finance team is well qualified and experienced, with clear designation of roles and responsibilities. The project will designate an accountant based on a CV acceptable to the World Bank who will handle financial transactions and reporting for the project. The accounting and staffing arrangements are considered to be adequate for the project.

(b) Planning and Budgeting

For SDL, the Public Finance Management Act 2012 guides budgeting and related regulations as well as the FM Manual developed by the MoALFC for projects. Specific budget provisions will also be included in the PIM. For KDC, budgeting will follow KDC and Kenyan budgeting procedures. There are adequate budget preparation, process and control mechanisms in place. SDL and KDC will be monitoring budgets by preparation of monthly management reports which are generated from the accounting system. The reports are reviewed, and comments included for significant budget variations. These reports will be generated on a monthly and quarterly basis for Board Review. KDC will ensure that the chart of accounts reflects the needs of the project and be modified as necessary.

(c) Accounting Systems, Policies, and Procedures

At SDL, the ministry uses a manual accounting system which runs parallel to IFMIS. The project will need to use IFMIS for project accounting. KDC runs the Navision 2018 system which has the capability of recording transactions per project and details required. The staff is adequately trained to maintain the system. The management organization and processing system safeguard the confidentiality, integrity, and availability of the data. KDC will use its existing accounting system but segregate the accounting for the project funds. The project will be set up as a separate entity in Navision system to allow for effective financial reporting to the World Bank.

(d) Internal Controls and Internal Audit

At SDL, the MoALFC PIU has developed a comprehensive FM manual used for projects with adequate provisions for necessary financial controls. This will be supplemented by the PIM. The DRIVE FM arrangements will be mainstreamed along the internal control framework, with the PIU taking the lead in executing project activities and maintaining the necessary controls. The project FM manual contains adequate internal control measures necessary to enhance accountability over project funds.

KDC has a Finance and Accounts policy procedure manual that guides in day-to-day financial operations. KDC Finance and Accounts policy procedure manual has provided for segregation of duties and ceilings for approval and authorizing of transactions. Internal control processes are in order. KDC uses the Accrual concept of accounting as per International Financial Reporting Standards guidelines. The procedures manual is based on the current business structure and any procedures to align to project activities would need to be incorporated accordingly. KDC and SDL will prepare and submit to the World Bank for approval a Project Implementation Manual for component 2 of the project.

MoALFC has an internal audit function with qualified audit staff and adequate capacity to provide fiduciary oversight over project funds. The internal audit departments at MoALFC and KDC are adequately staffed with qualified accountants with proper measures to review as per the Audit Charter. The audit team follows up on the implementation of audit findings by tracking through the teammate audit management system. Quarterly reports are discussed by the Audit Committee of the Board to ensure that the same are closed. The project will be included as part of the review of activities under the Audit Charter. The Internal Auditor ToR will be enhanced to include the review of the project activities.

(e) Financial Reporting

KDC and SDL will each prepare and submit calendar quarterly IFRs as per the agreed format. They will each also prepare and submit annual audited project financial statements as per the agreed format. The quarterly IFRs will be submitted to the World Bank within 45 days after the end of the calendar quarter to which it is related. The audited financial statements and the audit management letter will be submitted to the World Bank within six months after the end of the financial year.

(f) External Audit

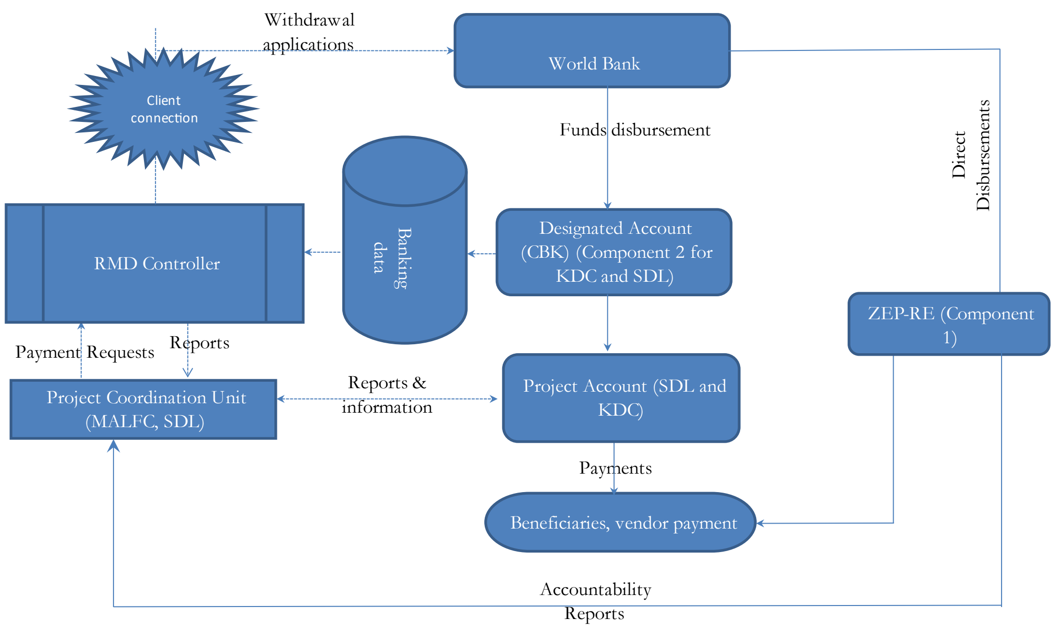
At SDL, the audit will be done by the Office of the Auditor General. For the facility to de-risk private investment in the livestock value chains, KDC will engage an audit firm that is technically competent, independent and acceptable to the World Bank who will audit the project funds. The audit ToR will be cleared by the World Bank, the auditors will submit their firm profile to the World Bank for review, and their audit contract and fees will be prior approved by the World Bank before the contract is signed, and that it would be a fixed sum contract.

(g) Funds Flow and Disbursement Arrangement

SDL and KDC will be required to open a dollar account with Central Bank of Kenya which will be managed by the National Treasury. They will each open a local currency project account with a commercial bank acceptable to the Bank for KDC and with existing regulations for SDL. Signatories to the local currency project bank account will be in line with the SDL and KDC mandates. Component 2 will be funding activities to better connect pastoralists to market, attract private investment into the value chains and facilitate the regional livestock trade.

An initial advance will be given to the project based on a 6-month forecast approved by the World Bank. Thereafter, the project will be required to replenish their designated account by submitting electronic withdrawal applications to the World Bank on the basis of reimbursement of expenditure (Statement of expenditure). The World Bank will process the withdrawal application and deposit funds into the Designated Account. Payments in regard to project eligible expenses should be made from the local currency project account. Other disbursement methods that will be available to the project are direct payments, reimbursement, and Special commitments.

Figure 1.4. Funds Flow and Disbursement Arrangements – Kenya (Component 1 and 2)



(h) FM Risk

Based on the assessment conducted, the FM risk for Kenya is substantial. Key risks identified include the possibility of delayed financial report, the need to have internal audit oversight, challenges in fund flow arrangement between SDL and KDC as well as lack of capacity of staff. The risk mitigating measures and agreed action plan are included in Table 1.9.

Table 1.9. FM Action Plan

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Financial report may not be timely delivered	The project will be set up as a separate entity in Navisions to allow for effective financial reporting to the World Bank.	KDC	Within one month of project effectiveness
Irregularities in the implementation of component 2, seed capital by KDC may not be detected early if dependence is only external audit reviews	Internal audit department to review the project every six months with the reports submitted to the WB 60 days after the end of the semester.	KDC	Every six months after project effectiveness
Delay in fund flow between SDL and KDC resulting in delayed implementation of seed capital under component 2	Ensure that there is a strong PMU in SDL that will ensure that KDC always has a budget and the funds flow is smooth.	SDL	Within one month of project effectiveness
Lack of capacity of staff results in inefficiency	Provide capacity building training annually	SDL, KDC and World Bank	Annually

26. **Procurement** for Component 2 will be implemented by the State Department of Livestock (SDL) in the MoALFC. The activities handled by KDC are financial investments and do not require procurement.

(a) **Procurement Regulatory Framework and Management Capability**: Procurement procedures in SDL are regulated by the 2015 Public Procurement and Asset Disposal Act and its 2020 regulations; the Ministry of Finance and Planning together with the Public Procurement Regulatory Authority provides further guidance on procurement procedures from time to time through circulars. The legal framework is explicit and comprehensive. Reg 5 (1) clearly states that the 2015 Act shall not apply where the agreement specifies the procurement procedures to be followed and hence, the procurement procedures of donor entities/development partners take precedence over the Act. The implementing entity's procurement for national competitive bidding is through open competitive bidding as detailed in the legal framework. It prepares annual Procurement Plan within the approved budget, and the plans are then approved by Cabinet Secretary. Procurements are done within the plan. At this stage, SDL tend to rely on dedicated project-specific project management units and the procurement regulations of donors/development partners like World Bank. At the project level, procurement is generally supported by adequately experienced consultants. Therefore, the project requires dedicated project implementation team including procurement officer.

(b) **Integrity and Oversight:** SDL is audited by the Office of the Auditor General annually and reports to parliament, and the Public Procurement Regulatory Authority undertakes compliance audits. External audits are carried out on donor-funded projects annually and reported to the respective donors. SDL is required to comply with all findings and recommendations of the audit. Bid evaluations follow the national legislation and World Bank requirements, which give specific guidelines on how to address these issues during evaluation. However, the approval authorities remained with position's directions. Although the Entity procurement complaints are managed through the Public Procurement Appeals Review Board, the Agency needs to have a dedicated and effective complaints management system for the project to review and resolve complaints / disputes at appropriate stages of the procurement cycle.

(c) **Procurement Process and Market Readiness:** SDL has well trained and experienced procurement professionals and the procurement processes are well documented in the Act and regulations which guides every process of the procurement. SDL has experience in the implementation of World Bank projects.

(d) **Procurement Complexity:** The nature of the expected procurements under the project are not complex as they will be consultancy services and minimal procurement of goods which SDL is quite able to handle.

(e) **Procurement Risk:** Based on the above assessments and findings, the overall procurement capacity and risk is assessed as **Substantial***.* Mitigation measures are in Table 1.10.

Table 1.10: Procurement Risk Mitigation Measures

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Limited capacity and resources	Dedicated procurement staff within the PIU	SDL	By project effectiveness
Lack of clear internal complaints management system.	Develop clear internal mechanism to resolve complaints / disputes at appropriate stages	SDL	By project effectiveness
Inadequate disclosure and publication of the contract awards.	Enhanced reporting of procurement opportunities and contract awards.	SDL	Within six months of project effectiveness
Inadequate application of procurement regulations.	Training on World Bank Procurement Regulations	SDL	By project effectiveness and continue as needed.

Somalia

27. **The project will be implemented by the Federal Government of Somalia (FGS) through the Ministry of Finance in collaboration with Ministry of Livestock, Forestry and Range, Ministry of Commerce, Somalia Bureau of Standards, Central Bank of Somalia and participating Federal Member States on relevant activities.** The project will use initially the existing Project Implementation Unit (PIU) of SCALE-UP (P174769) within the Ministry of Finance to coordinate the project's implementation. This unit will be responsible for the fiduciary responsibilities (procurement and contract management, financial management, E&S standards), the overall project implementation and coordination with stakeholders. The technical line ministries will be responsible for technical inputs and technical implementation of activities relevant to their sectors. Each participating agency will designate a focal point responsible for approving the ToRs, technical quality and approval of the deliverables for its respective activities. The PIU will be guided by the Steering Committee composed of all the beneficiaries of the project. There will be a review to assess the implementation arrangement during each Steering Committee meeting and assess whether the procurement and E&S management should transition to another entity, as long as such entity is assessed as suitable by the World Bank. The project will provide capacity building to the beneficiary institutions (including Ministry of Livestock, Forestry and Range, Ministry of Commerce, Somalia Bureau of Standards and Central Bank of Somalia) including in technical areas related to the components of the project and for general fiduciary and safeguards functions (in coordination with the PIU). All the ToR of the contracts benefiting Somaliland will be approved by the relevant technical counterparts in Somaliland. It is envisioned that for activities on quality infrastructure that will benefit the Somaliland Quality Control Commission, contracts will be procured in bulk to benefit several agencies and will be paid through direct payments by the World Bank.

28. **A Project Steering Committee consisting of the Directors General of the beneficiary ministries and chaired by the Director General Ministry of Finance will oversee the project**. The chair of the Steering Committee will be on a rotating basis as described in the PIM. Main ministries include the Ministry of Commerce and Industry, the Ministry of Livestock, Forestry and Range, the Somali Bureau of Standards, Central Bank of Somalia and the Ministry of Finance for project oversight as well as ZEP-RE. It is expected that the steering committee will convene at least three times annually to review progress in meeting the development objectives, to review project resources management, to monitor the results framework and to provide corrective measures as warranted. The PIU will act as a Secretariat to the Steering Committee. ZEP-RE will attend the steering committee to provide a strong link with Component 1.

29. **A Project Technical Committee consisting of technical staff from the beneficiary ministries will be established**. It will meet regularly (at least monthly) to technically review progress on the implementation of the agreed work plan, address any challenges, and inform ministries on any issues that may need high-level support or intervention. The PIU's project coordinator will be partly responsible to regularly organize this meeting and ensure active participation in coordination with ZEP-RE.

30. **The implementation arrangements under the proposed project will be governed by the guidelines and procedures set out in the Project Implementation Manual (PIM).** The PIM includes operational procedures, FM, procurement methods and procedures, E&S standards, and M&E of the project and procedures for overall project management. The PIU will be responsible for the implementation of Component 2 activities by working with the relevant institutions, private sector players, and regulatory agencies.

31. **The PIU is expected to have approximately 10 key staff.** Staff will be engaged locally under ToR agreed with the World Bank through competitive and transparent processes and may include civil servants as well as specialists

sourced locally and administrative staff. It is foreseen that for the duration of the project, external technical assistance to the PIU will be required. Such technical assistance (TA) would include a provision for ad-hoc capacities that can be temporarily and at short notice drawn-on if needed. This could be used, for instance, to temporarily augment specific technical capacities, to undertake specialized and targeted capacity building and to address challenges. A Stakeholder Engagement Specialist will be included within the staff.

32. **Financial management**

(a) Organization and Staffing

The External Assistance Fiduciary Section (EAFS) already established under the Office of the Accountant General is staffed with mainstream civil servants. The EAFS unit has been fully operational at the FGS for the last 6 years. The Office of the Accountant General will designate an Accountant to the Project Implementation Unit. The EAFS and the PIU staff will be trained on World Bank FM procedures. Throughout the implementation of the project, the Government is expected to ensure the EAFS and PIU are staffed with FM staff with relevant and adequate qualification and experience acceptable to the World Bank. The Office of the Accountant General/EAFS unit has the overall responsibility on the financial management function of the project. The Office of the Accountant General/ EAFS unit will identify and second an accountant to the PIU. The accountant is expected to possess skills and qualifications acceptable to the World Bank as shall be specified in the ToR. The project may be required to program adequate resources to support incremental costs for the seconded accountant.

(b) Planning and Budgeting

The Government (EAFS unit working with the PIU) will prepare a detailed project budget either monthly or quarterly based on the specific activities to be executed over the life of the project for approval by the World Bank at least two months before the beginning of the Government budgeting process**.** This budget will be agreed with the World Bank for it to be included in the Government appropriations and the relevant sector within the FGS budget. Monitoring of budget execution will be done through regular submission of IFMIS generated quarterly reports to the World Bank. The Government will prepare the budget utilization reports as part of the quarterly IFRs with clear discussion on variances

(c) Accounting Systems, Policies, and Procedures

To facilitate preparation of the relevant reports and annual financial statements, the project budgets and expenditures will be recorded, classified and reported through the Government Financial Management Information Systems according to the approved Standard Chart of Accounts.

(d) Internal Controls and Internal Audit

The EAFS will ensure that requests for funds commitments/withdrawals, invoices and payment requests are consistent with signed contracts before processing and release of funds/payments ensuring that contracts are registered in IFMIS**.** They will also monitor and report on the utilization of project funds, including the fiduciary standards and the reliability of the FM systems. A Project fixed assets register will be prepared, regularly updated, and physical verification of assets routinely carried out with the maintenance of fixed asset register with relevant information.

To further strengthen internal controls, the internal audit reports shall be prepared and shared with the EAFS/PIU and made available to the World Bank during Project supervision. The internal auditors will include the project in their annual plan and carry out risk-based systems audits to strengthen the project's internal control systems.

(e) Financial Reporting

The Government will extract from IFMIS, the Unaudited IFRs and submit them to the World Bank not later than 45 days after the end of the quarter. These reports shall form the basis for funds drawdown. The quarterly reports shall provide details on all funds received under the project as well as any counterpart funds received under the project (if any). The content and format of the IFR was agreed during negotiation. The project is likely to experience delays in consolidation of accountability report for the decentralized activities due to limited access to the implementation sites in the wake of COVID-19 pandemic.

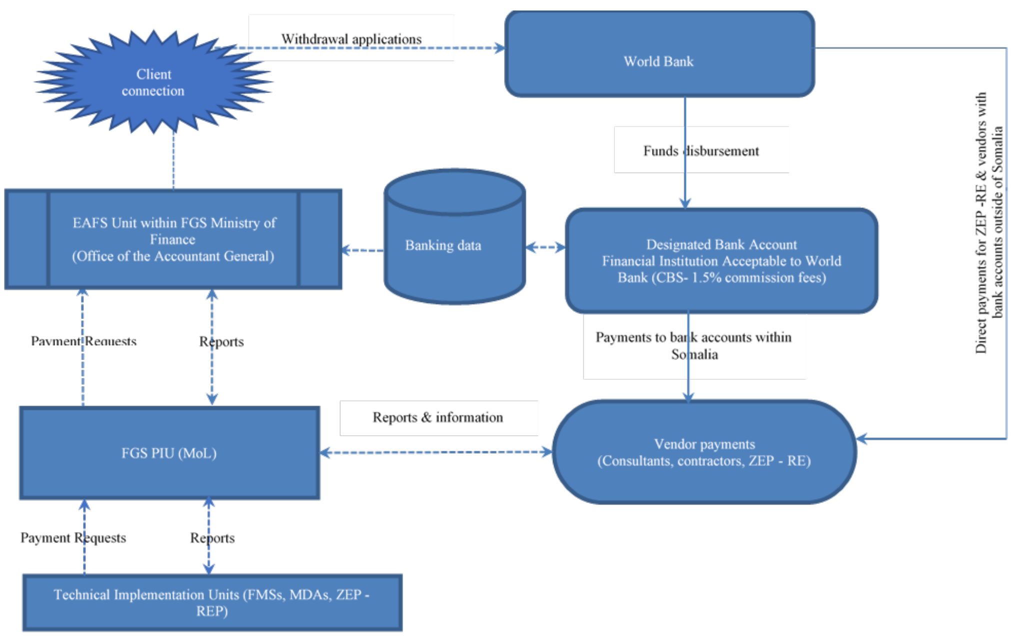
(f) External Audit

The Auditor General of FGS will carry out the Project External Audit with support of Technical Assistance (TA) as necessary. It is expected that the TA firm shall be procured by financing from the PFM pipeline project currently under preparation. However, in the transition period, the project will be expected to finance incremental costs relating to the Office of the Auditor General operational activities in undertaking the project audit.

(g) Funds Flow and Disbursement Arrangement

For the funds disbursed directly to Government for Component 2, the Government shall open a designated bank account in a financial institution acceptable to World Bank. The signatories to this account shall be as per existing mandate provided by Government which is Panel A: Director General of MoF and Director Finance and Administration as alternate and Panel B: Accountant General and Deputy Accountant General as the alternate. Initial withdrawal shall be based on lump sum amount based on the cash forecast. Subsequent withdrawals shall be report based and approved by the Government. All project expenditures shall be incurred and reported in US$.

Figure 1.5. Funds Flow and Disbursement Arrangements – Somalia (Component 1 and 2)



(i) FM Risk

Based on the assessment conducted, the FM risk for Somalia is High. The mitigation measures are in table 1.11.

Table 1.11. FM Action Plan

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Understaffing at the office of the Accountant General which could affect oversight of the project	The Office of the Accountant General in consultations with other implementing entities, will second a dedicated project Accountant who will work closely with the EAFS ZEP-RE to submit EAFS, regular reports on the DA dedicated to Somalia activities and clear delineated using Sun –system.	Accountant General, ZEP - RE	During implementation
Inadequate flow of funds arrangements between the Federal Government of Somalia and the Government of Somaliland to support activities in the Berbera corridor	• Proposed direct payment method to contractors working on the corridors. • A subsidiary agreement to be signed by Federal Government of Somalia and Government of Somaliland. • The Government of Somaliland to open a dedicated project bank account with a financial institution acceptable to the World Bank	FGS and GoSL	Three months after effectiveness
Delays in the external project audit	The project will budget for support to the Office of the Auditor General to hire an external TA to support the Office to conduct the audit in a timely manner	Director EAFS, PC	After effectiveness but before end of the financial year.
Difficulties in reconciling physical outputs with financial outlays. Challenges in beneficiary identification. The project will identify the individual pastoralists who are interested in the project and willing to be enrolled into the project. Somalia does not have a unique identification for its citizens, there could be risks of fraud and possibility of an individual getting access of another person's benefits.	Use of third-party monitoring where there could be limitations due to World Bank corporate security requirements. The process of beneficiary identification and enrollment onto the program should be clearly articulated in the PIM. Use of biometric registration is well advanced.	PC	Within 3 months after effectiveness Prior to effectiveness

33. **Procurement arrangement**. Component 2 will be implemented by the MoF with involvement of other Ministries and participating Federal Member States on relevant activities. The existing PIU of the SCALE-UP project within the MoF will be initially responsible for the overall project implementation and coordination with stakeholders. The PIU is already staffed with the Project Coordinator and Procurement Specialist. The PIU staff for the Project will be hired by the government for the duration of the Project through a competitive procurement process. For the activities that will benefit the SQCC, the procurement will be implemented by the Civil Service Commission of Somaliland (CSC) using its existing implementing entity.

(a) The procurement assessment found that the PIUs have basic familiarity with the World Bank's Procurement Regulations. The MoF and CSC are currently implementing World Bank funded projects, but the procurement support is mainly being provided by Technical Assistants (consultants) recruited under the established PIUs. The agencies are not adequately staffed with adequate/qualified procurement experts but could benefit from the existing PIUs (implementing similar Bank financed projects) which have experience on World Bank financed projects and currently housed in the MoF/CSC. The national procurement law is not fully operational. The capacity of bidders/suppliers is weak – bidders are not familiar with bidding procedures of public procurement. Thus, sometimes bids submitted are of poor quality and with unintentional deficiencies that end up being rejected. Experience in contract management is inadequate. The market in a fragile environment may suffer from limited interest from international contractors/consultants or high price bids/proposals because of country security risk , which may lead to low response to published tenders. The market is affected by fraud and corruption risk, a weak record keeping (incomplete procurement files) and a lack of adequate complaint handling mechanism.

(b) To mitigate the risk, the MoF will use initially the established SCALE-UP PIU. The SCALE-UP PIU will be responsible for the overall Project coordination, implementation, management and oversight and will also facilitate the procurement activities of the participating Ministries and Federal Members States. The Procurement Specialist of the Project will work alongside the relevant government staff in the MoF/CSC for knowledge and skills transfer to enable them to gradually take over project's activities. In this regard, MoF/CSC will nominate procurement personnel (counterpart staff) for skill transfer during the Project implementation. Also, the MoF/CSC procurement capacity will be enhanced through on-the job training and the World Bank will also provide a need-based training periodically during the project implementation.

(c) **National Public Procurement Law and Procurement Documents**. The Public Procurement, Concessions and Disposal Act, 2015 for the FGS, which is the relevant public procurement legal framework, has been amended by the National Legislative Assembly and the Senate. The new Act foresees a decentralized system of procurement. The Act further provides for an independent oversight body that will foster the regulatory and the policy framework of public procurement in the country. It has been reviewed by the World Bank and found to be satisfactory and consistent with the National Procurement Procedure requirements prescribed in paragraph 5.4 of the Regulations to a large extent. The accompanying Procurement Regulations have also been prepared and issued by the Minister with responsibility for Finance to provide the necessary guidance for application of the provisions in the Act. However, institutions are not yet in place in accordance with the Act. Similarly, other procurement guidance documents, including SBDs, Sample Evaluation templates, Procurement Operations Manual and Procurement Reporting templates are yet to be finalized. The private sector and civil society have limited capacity in the overall procurement procedures and contracts management. Currently, the process of operationalizing the Act is underway. Until such time the Project shall use the World Bank's SPDs customized to national standards (agreed with the World Bank by the Borrower) when approaching the national market, and. under open International Competitive Procurement.

(d) **Complaints Handling**: For the procurement related complaints, the project will follow the procedure prescribed in the World Bank Procurement Regulations (Paragraphs 3.27 and 3.32).

(e) **Record Keeping**: All records pertaining to the award of tenders, including bid notification; bid-evaluation reports; all procurement correspondence shall be retained by respective agencies.

(f) **Procurement Complexity**: The expected procurement under this project is not complex. These procurement activities include Goods, Consulting Services, and non-Consulting Service. The contracts under Goods include office equipment, Information and Communication Technology (ICT) Equipment and accessories, furniture, vehicles, and office supplies. Somalia has available local traders for ICT equipment, office equipment and supplies. These items are available either locally or internationally. Such items will be procured using either Open National/International or Request for Quotation methods as appropriate. Procurement activities under Consultancy services for this project will be the hiring of consultants. These include recruitment of individual consultants and consultants' firms as needed from local and international market as appropriate. There are qualified individuals and consultants' firms available in Somalia/from international market of whom have participated in previous similar assignments funded by the World Bank. The selection approach will be QCBS and Consultant's Qualification Selection. Non-Consulting Services include activities such as hiring of conference facilities, transport, and ICT related services, and will be procured with competitive procurement method. Given the size and nature of non-consulting services to be procured, most of the potential bidders are available locally. Such items will be procured through Open National Market Approach and Request for Quotations.

(g) **Contract Management**: The PIU will be responsible for overall implementation and management of awarded contracts in accordance with the agreed contractual obligations.

(h) **Risk Assessment:** The risk for procurement is considered ***"High."*** The risk is reduced to a residual rating of ***"Substantial"*** in view of the mitigation measures proposed in Table 1.12.

Table 1.12. Procurement Risk and Mitigation Measures

Findings/Issues	Actions Proposed	Responsible	Targeted Date
Inadequate knowledge and experience of the World Bank Procurement Regulations	i) Recruit a Procurement Specialist with Knowledge and experience of the World Bank Procurement Regulations ii) Prior review of all contracts regardless of the value	PIUs	By project effectiveness.
Inadequate knowledge and skills in Contract Management	Conduct training tailored towards addressing weakness in contract management for PIU staff	PIUs /WB	First training within 3 months of effectiveness and other trainings as needed during Project Implementation
Need for systematic filing system in order to have complete records of the procurement processes	Establishment of a satisfactory filing system	PIUs	Within four months of project effectiveness.
Inadequate complaint handling mechanism	Establish adequate internal complaint handling mechanisms following the WB procurement regulations	PIUs	Within two months of project effectiveness
National procurement law is not fully operational	i) As the local procurement regulations are being approved, World Bank procurement regulations should be applied/used ii) The customized World Bank SPDs to be used while approaching the national market. iii) Provision of support on public procurement reforms	PIUs/WB	Within the period of project implementation.
Weak capacity of bidders/suppliers	The implementing agency should always have time for bidders/suppliers/Consultants to explain and clarify the bid/quotation/Proposal document before the submission and conduct workshops (pre-bid/pre-proposal conferences) for bidders/Consultants on how to submit acceptable bids/proposals.	PIUs	During Project Implementation
Fraud and Corruption	i) Prior review of all procurement activities and enhance internal FM controls, mechanisms across the project activities ii) Ensure that the Bank's prescriptions in fighting fraud and corruption are included in all bidding documents and contracts. iii) Create awareness among the government, private sector, and other stakeholders on the key issues regarding integrity in procurement and financial management iv) Involve Probity Advisor where appropriate	PIUs	During Project Implementation
Being a fragile environment, the market is unstable and sometimes suffer from limited interest from international contractors/consultants	Encourage joint venture with local firms/Consultants.	PIUs	During Project Implementation

Table 1.13. Procurement Arrangement for high or substantial risk contracts in the project (Components 1 and 2)

Contract Title, description, and category	Estimated cost (US$)	WB oversight	Procurement approaches/competition	Selection methods	Evaluation methods	IA
TA for Digibima (Enroll policyholders, Digital registration, infrastructure for premium collection, Product Sales Underwriting, premium payments and quick claim payouts, training)	1,000,000	Prior	Open/ International	QCBS	Most Advantageous Proposal	ZEP-RE
Non consulting service to purchase sovereign insurance policy	2,000,000	Prior	Direct	CDS	Negotiation, Industry practice	MoA/Djibouti
TA to build capacity, carry out needs assessment on quality assurance infrastructure for livestock export	500,000	Post	Open/ International	QCBS	Most Advantageous Proposal	MoA/Ethiopia
Pre-feasibility studies	450,000	Post	Open/ national	QCBS	Most Advantageous Proposal	SDL/Kenya
High end laboratories with hardware and software (2 packages)	8,100,000	Prior	Open/International	RFB	Most Advantageous Bid	MoF/Somalia
Consultancy Services - Coordination border Management	1,600,000.00	prior	Open/International	QCBS	Most Advantageous Proposal	MoF/Somalia

Additional Financial Management Elements for the Project

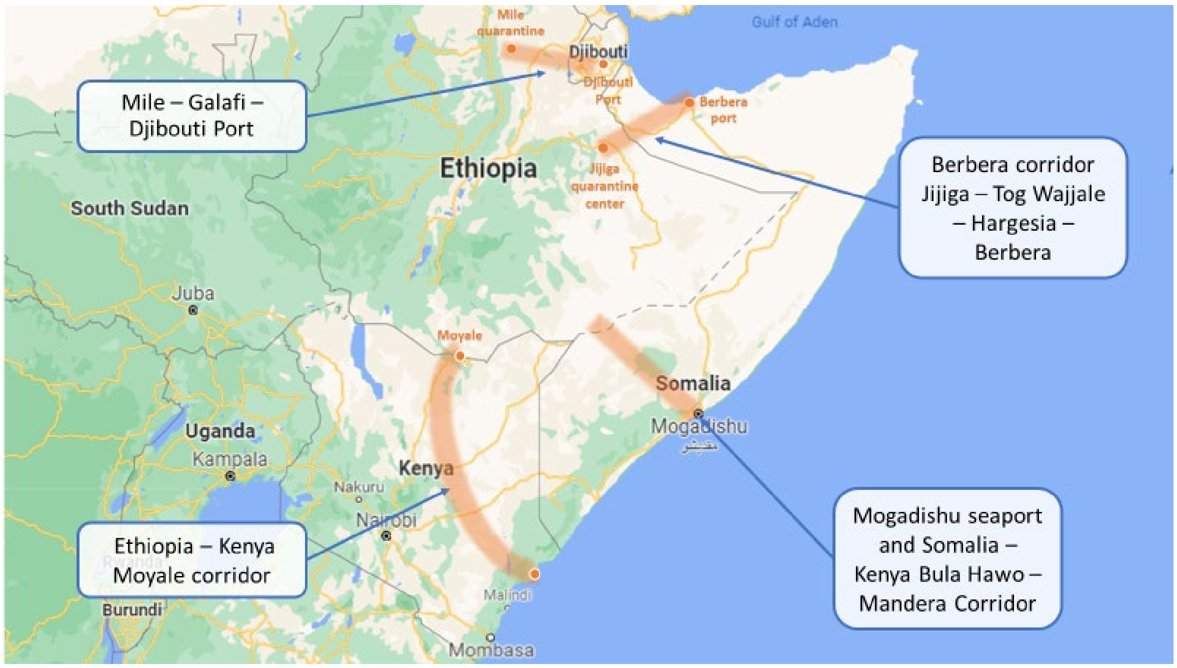
34. **Eligible expenditures have been defined as works (for Ethiopia only), goods, consulting services, training and operating costs for the activities under the component.** In addition to these, there will be a facility that will be provided to de-risk private investments into the livestock value chains which will be a financial investment. Studies are underway to determine the appropriate mechanisms to implement this activity in Ethiopia and Somalia (in Kenya it will be implemented by KDC, and in Djibouti by CLE with Chamber of Commerce). Regardless of the mechanisms to be chosen, there should be a clear definition of the beneficiaries, the eligibility criteria for being supported by this facility, the governance and approval structure, the definition of the expenditure, the fund flow, accountability, reporting and monitoring and evaluation arrangements, which must be included in the operations manual for this activity. As these are yet to be defined in Ethiopia and Somalia, this activity will have a segregated category which will have a disbursement condition of the approval of the manual and completion of the necessary assessments required. The M&E system of the project will continue to monitor and evaluate the impact of the investment and its contribution to the PDO.

35. **Fraud and Corruption.** ZEP-RE and all implementing entities are required to adhere to the World Bank Anti-Corruption Guidelines as outlined under the World Bank's policy and procedure for IPF operations. The assessment recommends the applicable Anti-Corruption Guidelines applicable to this operation will be documented in all legal agreements and subsidiary agreements under the project.

36. Possibility of circumventing the internal control system with colluding practices as bribes, abuse of administrative positions, mis-procurement etc., is a critical issue and may include: (a) late submission of supporting documents; (b) poor filing and records; (c) lack of system integration; (d) lack of budget discipline; (e) unauthorized commitment to suppliers, bypassing budget and expenses vetting procedures. These are mitigated as follows: (i) specific aspects on corruption auditing would be included in the external audit ToR; (ii) FM Procedures (as part of Operations Manual) approved and in operation for the project (iii) strong FM arrangements (including qualified Project Accountants in the implementing entities, (iv) periodic IFRs including budget execution and monitoring; and (v) measures to improve accountability and transparency are built into the project design.

ANNEX 2: Detailed Component 2 activities and support to livestock trade corridors

1. Component 2 aims to better connect pastoralists to market, attract private investment into the value chains and facilitate the regional livestock trade. This component focuses on four regional livestock trade routes and on the value chains of live animals and livestock products (including feeds).



Djibouti (US$6.5 million – US$5 million from the HoA MTDF and US$1.5 million IDA equivalent)

2. The activities will have a strong focus on trade facilitation along the Ethiopia-Djibouti corridor, through the enhancement of the logistic performance of livestock transit originating from Ethiopia, and the optimization of the livestock terminal that Djibouti has invested on and that is currently operating at a maximum of 16 percent of its 2.5 million livestock heads capacity. The activities will also strengthen quality infrastructure to move up the value chain, and generate economic spillovers on the local economy by better integrating the local private sector in the regional livestock value chain. The following interventions are contemplated for Djibouti:

- **Sub-component 2.1: Upgrading quality infrastructure (US$2.34 million)**

The project will provide capacity building and acquisition of equipment to strengthen the quality standards and capacity of Djibouti on its centres of excellence (laboratory, quarantine center, slaughterhouse) whose construction is not supported by the project, so as to move from a live animal transit country to an exporter of livestock products. This will include studies to attract private investment in quality infrastructure, that could be supported under the Livestock Value Chain de-risking Facility (sub-component 2.3).

- **Sub-component 2.2. Trade facilitation and trade logistics (US$2 million)**

The project will support the improvement of livestock transport/transit processes between Djibouti and Ethiopia, by strengthening the bilateral Livestock Trade Promotion Working Group and the digitization of the quarantine certificate between Mile and Jigjiga in Ethiopia, and the Doraleh Multipurpose in Djibouti, with system integrations, processes harmonization, and capacity building (including for Djibouti quarantine center). This sub-component also includes the studies and preparatory work to prepare potential investments under the Livestock Value Chain de-risking Facility such as : economic and financial feasibility studies to assess how Djibouti can move up the value chain of halal meat products (including assessing the feasibility of a new slaughterhouse and testing laboratory at international standards for halal products), by analyzing the entire value chain, i.e., supply and demand, trade agreements, positioning opportunities on regional and international markets, and evaluating the preferred option of a center for the processing of livestock products in accordance with international standards in the form of an investment plan to support the mobilization of investment from a private operator under a Public Private Partnership; and business development services to the beneficiaries of the Livestock Value Chain de-risking Facility to ensure the implementation of investment plans and effective improvement of their operations, through CLE and chamber of Commerce.

- **Sub-component 2.3: Private investment in Livestock Value Chain de-risking facility (US$1.5 million)**

The project will seek to support the local private sector participation in the regional livestock corridor, building productive capacities and this sub-component will be implemented by the CLE and the Chamber of Commerce through conventions with the PIU. The project will provide financial support to private investments that support the value addition in the livestock value chains in Djibouti and the development of economic activities around the livestock value chain linked to services at the port livestock terminal; production, marketing and quality assurance of livestock products; cold chains; efficient logistics on the livestock transit corridor. Actors in the value chain (slaughterhouse manager, live animal importers/exporters/transporters, butchers, producers or importers of animal feed) will be supported to better structure themselves and enhance their services.

- **Sub-component 2.4: Project Management (US$0.66 million).**

Ethiopia (US$70 million IDA equivalent)

3. Livestock export in Ethiopia faces various constraints along the export corridors. Information from MoTRI & MoA shows that the livestock value chain is highly dominated by middlemen who export livestock through informal channels into major destination markets in the Middle East. The data shows that even though the volume of exports is increasing, the value that the country gets out of it is decreasing. The major challenges in livestock export can be summarized as informal trade, under/over invoicing, livestock logistics, poor production & sourcing, poor quality assurance (manual ear tagging, certification & standardization), lack of traceability and price management.

4. To resolve these challenges, MoTRI & MoA have prioritized and designed interventions on improving livestock infrastructure, improving tracking & traceability, and diversifying destination markets for Ethiopian exports. The Livestock Master Plan of Ethiopia also plans to strengthen the quarantine and inspection systems to reduce the risk of introducing and disseminating livestock diseases through the export route. A livestock quarantine facility is an isolation space where livestock are inspected for diseases, medicated, cleaned, protected from other diseases, fed, standardized, certified and are made ready for their journey to next stages of the value chain. Well-developed quarantine and certification systems that comply with international standards and meet requirements of importing countries are critical infrastructure for live animal exports.

5. To formalize live animals export through the main corridors, Ethiopia is constructing five quarantine centers in Mille (Afar), Mettema, Humera, Jigjiga and Almhar. According to MoA, in 2020/21, a very small number of cattle has been exported through facilities related to the Jigjiga quarantine center while 1042 sheep/goat and 778 camels have been exported through Mille. MoA has signed Public Private Partnership (PPP) agreement with a private sector company for the operation and management of the Mille quarantine center and intends to replicate this arrangement to Jigjiga quarantine center in the Somali region of Ethiopia.

6. The support to the livestock value chain and trade facilitation is divided into four parts i) quality infrastructure and capacity building ii) facilitation of regional livestock trade and iii) support for local productive capacities in connection with the regional livestock corridor iv) project management. Specific activities in the project include:
   - **Sub-component 2.1: Upgrading quality infrastructure (US$20 million IDA equivalent).** The project will support TA and capacity building on revision of national quality standards for livestock products, identification & accreditation of both private and government laboratory facilities, building capacity for product certification and testing services for livestock products. It will also enable operators of facilities to be able to effectively use existing testing equipment. The project will also support the certification of labs that are built by private companies inside or in the vicinity of quarantine centers. The project supports harmonization of livestock standards between Ethiopia, Kenya, Somalia, and Djibouti so that certifications given in one country are equally applicable and acceptable in the other country. In addition, to leverage the capacity created by the ongoing World Bank financed project NQIDP, this project will support the training of Quality Assurance professionals from HoA countries in the region at Ethiopian quality assurance centers. This will include studies to attract private investment in quality infrastructure, that could be supported under the Livestock Value Chain de-risking Facility (sub-component 2.3).

   - **Sub-component 2.2: Trade facilitation and trade logistics (US$26 million IDA equivalent).** On Jigjiga quarantine center, the project will support a technical and economic feasibility study to bring the quarantine center under a PPP arrangement for operation and management. On the Jigjiga-Berbera trade route, the project will support the development of trade facilitation agreement (including customs and tax modernization at the border) to speed up the transit of live animals coming from Jigjiga to the Berbera port. If a border post is required, the project will finance the construction and operationalization of the post. In the same route (Jigjiga and environs), the project will conduct awareness creation on the value of using market centers for selling their livestock, promotion of market centers, training of pastoralists in the region. On the Mile quarantine to Djibouti port route, to optimize existing infrastructure, a feasibility study for transferring quarantined livestock from trucks to the Ethio-Djibouti train will be assessed. This would significantly improve the time animals spend in transportation from Ethiopia to Djibouti and avoid another 21 days quarantine in Djibouti. If this activity is found feasible, the project will support the construction of a transfer station and finance the procurement of cattle wagon that take the cattle to Djibouti port. If the transfer station is not found to be feasible, the project will support the construction of a rest stop before the cattle enter Djibouti (in boarder area between Ethiopia and Djibouti) from Mille Quarantine, so that the cattle is properly rested before entering Djibouti and can be loaded within 48 hours onto the ships. The project will strengthen Ethiopia's Livestock Market Information System and will link Mille & Jigjiga Quarantine Centres with Djibouti and Berbera ports using IT systems that make information exchange efficient between the stated quarantine facilities. The project will support trade integration and facilitation reforms to enhance regional livestock trade. These include studies & TAs that increase convergence of national trade policies and regulations of Ethiopia with the region, in view of simplifying business environment for traders, reduce unnecessary administrative burden and enable logistics companies to operate effectively and efficiently within the regions. This sub-component also includes the studies and preparatory work to prepare potential investments under the Livestock Value Chain de-risking Facility, such as the hiring of the Facility Manager, and feasibility studies. One of those feasibility studies will look at operationalization of a system to link pastoralists with export abattoirs or live animal exporters (learning from the coffee sector where Ethiopian coffee is tracible, and farmers are directly linked with exporters). This will help pastoralists to be compensated for the animals that they bring to the market and exporters to get competitive prices that encourage them to off take more animals and integrate better to local/international markets. The project will support local productive capacities, in connection with the regional livestock corridor and niche markets.

Different studies & technical assistances will be provided for the identification and development of local value chains for entering new markets by establishing links between local pastoralists and international buyers and promoting cost-effective freight forwarding and export logistics, including cold chain. Added to this, the project will support identification of potential niche markets for grass-fed red meat from pastoral regions of the HoA. The project will enable a Public Private Dialogue & Awareness Creation platform supporting PPD forums to bring policy makers, private sector, pastoralist groups, etc to discuss and take action that improves the livestock value chain. In addition, this activity will conduct successive awareness creation programs and media campaigns to break information asymmetries between pastoralists, abattoirs, exporters etc.

- **Sub-component 2.3: Private investment in Livestock Value Chain de-risking facility (US$20 million IDA equivalent).** This activity will provide a facility to de-risk private investment in the livestock value chains that enhances capacities, quality, productivity, and market access of local firms and leverages private capital to be invested in the livestock export sector. Each beneficiary of the fund will specify the nature of the problem, objectives and scope of interventions, detailed costing, targeted results and concrete plans to enhance linkages between pastoralists and the export oriented private sector. The approval of each proposal is subject to identification of direct linkages between pastoralists located in areas where Component 1 of DRIVE has de-risked and fund disbursements will be tied to performance indicators for the private sector. The funds can be used in various ways (for example, equipment upgrading for fodder production, equipment upgrading for abattoirs, compliance training/certification, procurement of livestock trucks, technical assistance, modernization of private quarantines – such as in Adama, …etc). Access criteria, management procedures and application process will be defined in the agreed operations manual of the Facility to de-risk private investment in the livestock value chains. The Facility will not cover more than 60 percent of the total cost of the proposals. No single firm may receive total grant funding more than US$300,000 from this Facility. It is expected that the Facility will be implemented by a financial intermediary, DBE, after it has been assessed for this role.

- **Sub-component 2.4: Project Management (US$4 million IDA equivalent).** This sub-component will support Project management and monitoring and evaluation (M&E) through, *inter alia*, financing of

Operating Costs, consultants' services, goods and technical assistance. Support will be provided to the Project Coordination Unit (PCU) in the MoA and Project Implementation Unit (PIU) in MoTRI to strengthen their capacity and increase human resources required for project implementation and will include: (a) consultants employed as part of the PCU/PIU, including project coordinators, procurement specialists, financial management (FM) specialists, E&S s specialists, a full-time M&E specialist, and technical experts that may be needed; (b) required goods and services to support the functioning of the PCU/PIU as needed, including office equipment and furniture; (c) operating costs for the PCU/PIU incurred on account of project implementation; (d) data collection, customer satisfaction surveys, and assessment surveys; and (e) all project-related audits. The project management will include setting up an effective M&E system to track results of the project, carry out necessary surveys and assessments, regularly reports on outputs, outcomes and impacts of the project interventions.

Kenya (US$65 million IDA equivalent)

7. Component 2 will support the origination of private-sector led viable investment opportunities in the livestock value chain, with a focus on the Ethiopia-Kenya Moyale trade corridor on 21 priority counties.[26] The project will support preliminary studies to identify potential business opportunities, prepare business plans and investment memoranda. The project will work closely with IFC MAS and Advisory to ensure the identified businesses are sound and commercially viable. Through the Kenya Development Corporation (KDC), the project will de-risk private investment of businesses with a strong link with pastoral production systems. The project will give preference to investors willing to get into offtake agreements with the pastoralists. Component two will include:

- **Sub-component 2.1: Upgrading quality infrastructure (US$8 million IDA equivalent).** This will be implemented by SDL in collaboration with the counties._This will include the rollout of the Livestock Identification and Traceability System in the DRIVE project area and support the operationalization of the Livestock Master Plan to improve standards in the livestock sector.

- **Sub-component 2.2: Trade facilitation and trade logistics (US$11 million IDA equivalent).** This will be implemented by SDL in collaboration with the counties, and will aim to facilitate livestock trade investments. This will include technical assistance to support the development of bankable investment opportunities in the livestock value chains so as to increase the quality of the livestock traded by pastoralists, and linkages between pastoralists and livestock/meat exporters and processors. SDL will provide the enabling environment for pastoralists' access to financial services and for the mobilization of private investment in the livestock value chains, including: technical advice on private investment priorities; advice on complementary resilience building activities by pastoralists; facilitation of the use of government facilities by private investors (such as public holding grounds); regular reviews of the pastoralists benefitting from DRIVE both under Component 1 and 2. The activities under this component will include the finalization of the Livestock Master Plan, undertaking feasibility studies and market sounding, and developing mechanisms for pastoral communities' participation. The project will help aggregate groups covered under Component 1 into Farmer Producer Organizations and link them with private sector investors to increase the value of their livestock trade. The project will have coordination structures in each participating county to support engagement at the county level, including on the

[26] Marsabit, Isiolo, Garissa, Wajir, Mandera, Samburu, Baringo, Lamu, West Pokot, Laikipia, Tana River, Narok, Kajiado, Makueni, Tharaka Nithi, Kilifi, Kitui, Turkana, Meru (Meru North sub-county), Kwale and Taita Taveta.

sensitization of stakeholders, awareness creation and capacity building, groups' formation and pastoralists' registration.

- **Sub-component 2.3: Private investment in Livestock Value Chain de-risking facility (US$40 million IDA equivalent)**. This will be implemented by KDC in partnership with Agricultural Finance Corporation (AFC). The project implementation manual will include detailed eligibility criteria to select companies that will receive financial support and how such support will be structured. The project will consider social enterprises that can generate profit for shareholders and improve the livelihoods of the pastoral communities with positive impact on the environment. The supported investments will focus on natural vegetation fed-red meat and auxiliary value chains. The financial support will have two windows, one window for significant investments with substantial demonstration effects (i.e., that can be replicated and scaled-up) and a second window that will focus on women and youth business enterprises in pastoral areas. The project will collaborate with IFC to have a strong pipeline that could benefit from further investments.

- **Sub-component 2.4: Project Management (U$6 million IDA equivalent).** This will cover SDL PIU's costs to support the coordination of implementing agencies (KDC in partnership with AFC, and ZEP-RE) and counties; ensure compliance with public accountabilities requirements for the entire project; developing annual work plans and budgets, fiduciary aspects (financial management and procurement), human resource management, ESF compliance monitoring, development and implementation of a Management Information System and ICT-based platforms, monitoring and evaluation, and a communication strategy and citizen engagement. This will also include KDC's cost of undertaking the due diligence of the projects supported under the Livestock Value Chain de-risking Facility.

Somalia (US$40 million IDA equivalent)

8. The activities will have a strong focus on quality infrastructure which is incipient in the country and on two trade corridors: (i) the Berbera corridor, a critical gateway for Ethiopia to export its live animals; (ii) the Mogadishu seaport. Three types of interventions are contemplated:

- **Sub-component 2.1. Upgrading quality infrastructure (US$18 million IDA equivalent)**. Somalia is developing its national quality infrastructure system and the Somalia Bureau of Standards (SBS) was created in early 2021. Strengthening the national quality infrastructure system will support the private sector to export live animals and processed livestock products. This subcomponent will also support the Somaliland Quality Control Commission (SQCC).

i. Both institutions face some challenges including support for standards development in terms of procedural scope and operations, for implementing metrology, certification and testing services that are not yet operational. Similarly, there is need for a quality assurance system for livestock products. This sub-component will improve livestock product quality by supporting (i) technical assistance to SBS and SQCC covering standards, accreditation, metrology and conformity assessment. The technical assistance will also include testing, laboratory procedures, livestock quality and regulations, establishment of quality systems and operation of a traceability system; and (ii) goods and services including equipment and testing supplies.

ii. DRIVE could help to build SBS and SQCC's systems and quality infrastructure by strengthening the existing collaboration with Quality Infrastructure Agencies and other international National Quality Infrastructure bodies. For example, SQCC has established a MoU with the Ethiopian National Quality Infrastructure Institution. Both institutions have been undertaken exchanges on food testing, quality testing. Similarly, the Ethiopia National Metrology Institute of Ethiopia has done some assessments of the instruments of SQCC.

iii. Activities will ensure a full coordination between the SBS and SQCC on harmonization of standards, and address the share of laboratories, certification and participation on capacity building seminars.

- **Sub-component 2.2. Trade facilitation and trade logistics (US$8 million IDA equivalent).** A diagnostic study was undertaken to identify how to improve trade infrastructure and logistics services along the corridor. Some of the potential activities include TA on regulations, digitization of trade data on livestock, transport procedures for the trade portal, and the development of a traceability system supporting digitization of certification on the Jigjiga-Berbera corridor, and the assessment of a trucking system to facilitate cross-border road transport permits. The Ethiopia DRIVE project will support the PPP arrangement for the Jigjiga quarantine center, which could then be directly connected to the Berbera port through digitization of export procedures, similar to what will be done for the Ethiopia-Djibouti corridor. This sub-component also includes the studies and preparatory work to prepare potential investments under the Livestock Value Chain de-risking Facility, such as the hiring of the Facility Manager and feasibility studies.
- **Sub-Component 2.3. Private investment in Livestock Value Chain de-risking facility (US$10 million IDA equivalent).** This activity will be identified in coordination with the IFC’s HoA Livestock Sector Approach to ensure that the activities proposed enable private investment into the livestock value chain.
- **Sub-Component 2.4. Project management (US$4 million IDA equivalent).** This will include the project management cost for all the sub-components.