

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC21271

Project Name	Smallholder Agriculture Development and Commercialization Project (P154447)
Region	AFRICA
Country	Angola
Sector(s)	General agriculture, fishing and forestry sector (60%), Public administration- Agriculture, fishing and forestry (14%), Irrigation and drainage (9%), Agricultural extension and research (9%), General water, sanitation and flood protection sector (8%)
Theme(s)	Rural services and infrastructure (45%), Rural markets (45%), Rural policies and institutions (10%)
Lending Instrument	Investment Project Financing
Project ID	P154447
Borrower(s)	Republic of Angola
Implementing Agency	Ministry of Agriculture
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	23-Jun-2015
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The Republic of Angola, with a total population of 24.3 million inhabitants, covers an area of about 1.25 million km² and is located on the Atlantic coast of south-western Africa. According to the 2014 population census, 52 percent of the total population are women and about 38 percent live in rural areas.

Angola became independent from Portugal in 1975. This was followed by a civil war that lasted for almost 25 years from 1975 to 2002 and ended with a peace agreement in 2002. Angola is one of Africa's resource-rich countries, with a large potential for economic growth based on many mineral

resources (particularly oil and diamonds) as well as agriculture.

Agriculture contributes to approximately 10 percent of GDP, the industry sector accounts for 60 percent of GDP and the services to about 30 percent. However, the economy of Angola is predominantly oil based. The oil sector accounts for almost 45 percent of the GDP, 95 percent of total export value and 80 percent of government revenues. Oil prices are at a four years low and have declined by about 40 percent since June 2014. Currently oil prices are below US\$50 per barrel. With the declining international oil prices, the government would like to reduce this dependence on the oil sector and promote diversification of the economy, including expanding the role of agriculture.

Projections for GDP growth made by the government are: 9.7 percent in 2015; 5.9 percent in 2016 and 5.1 percent in 2017. Growth is mainly driven by the recovery of the oil sector and an increase in public investments in the non-oil sectors. This includes, among others, rehabilitation of roads, increase in energy production, and development of new irrigation systems to enhance agricultural productivity. The average inflation rate is projected to be about 7 percent by end of 2015. While macroeconomic prospects in the medium-term are challenging due to declining oil prices, macroeconomic performance and commitment to reforms have been favorable.

While reasonable progress has been made toward achievement of the Millennium Development Goals (MDGs), Angola is not likely to meet the MDGs by 2015. Angola ranks low in both the human development indicators and business environment indicators. Overall, institutional capacity remains weak. There are bureaucratic hurdles and governance challenges that inhibit growth of the private sector.

The performance related to social indicators has been mixed. Good progress has been made in poverty reduction, primary education and gender equality since 2002. Despite these achievements, however, social indicators remain very poor. For example, life expectancy at birth is about 51 years. Maternal mortality is 450 out of 100,000 births which is the highest in sub-Saharan Africa. Malnutrition is also acute with 30 percent of children less than five years of age suffering from stunting and 16 percent are under-weight.

The overall poverty rate has declined from 62 percent in 2001 to about 37 percent in 2009 (about nine million people). This is a major achievement. However, there are major regional disparities in the poverty rate across provinces as well as between rural and urban sectors. In the rural areas the poverty rate is almost 58 percent. On the other hand, the poverty rate in Luanda (the largest city in the country) is only about 9 percent. Clearly there is a great need to reduce poverty rates in the rural areas.

Angola is estimated to have about 57 million hectares of arable land of which less than 4 million hectares are currently under cultivation. Despite enormous potential to increase cropped area and crop yields, and diverse agro-climate regions in the country for increasing food production, national and household food security continues to depend on imports of various food commodities and this cannot be sustained. Angola continues to import a significant share of food consumption, except for roots and tubers. For example, the overall output of cereals is currently estimated at 1.9 million MT against a total consumption need of 3 million MT. The difference (1.1 million MT or 36 percent of the needs) is met through imports. In other words, national food security remains a major development issue.

Global experience suggests that growth in agriculture has much higher potential than in other sectors (such as industry) to reduce rural poverty. Inclusive growth in the agricultural sector can make a major contribution to diversify the economy, accelerate economic growth, increase food security, reduce rural poverty, improve social indicators in the rural areas, and help achieve MDGs. The proposed agricultural project envisages a major impulse to the agricultural sector that will not only increase productivity and production but will also improve the lives of rural population at large, thus providing for structural change and transformation of the agricultural sector in the project areas.

Sectoral and Institutional Context

While agriculture accounts for only about 10 percent of the GDP, almost two-thirds of the population depend directly or indirectly on agriculture for their income, employment and livelihood. About 37 percent of the population is below the poverty line and about 85 percent of the poor are in the rural areas and depend on agriculture. The cropping pattern varies across the agro-climatic conditions in the country. However, Central Highlands (Huambo, Bie and Malanje Provinces) appear to have a high density of population and a high potential for agricultural production, including cassava, maize, beans, potato and horticulture.

Prior to independence, Angola had a long history of exporting agricultural commodities, having been once the third largest exporter of coffee in the world. Exportable surpluses, such as coffee and maize, were for the most part produced using traditional technologies and few modern inputs. During the colonial period (up to 1975), agriculture had a dual structure with a commercial sector of about 800,000 ha managed by Portuguese settlers using modern technologies, and a traditional sector primarily composed of smallholder family farms cultivating about 3.4 million ha.

After independence, most of the Portuguese settlers left the country and many of the former commercial farms and plantations were converted into state farms, which have now been privatized. The civil war (1975 to 2002) resulted in a virtual collapse of commercial production as large numbers of rural inhabitants either fled or reverted to subsistence agricultural production. Infrastructure suffered a great deal with widespread destruction of roads, bridges, irrigation systems and warehouses, compounded by the presence of thousands of land mines in the rural areas. Although the situation has improved since the end of the civil war with the rehabilitation of main roads and bridges, and clearance of mines, agricultural exports are currently negligible. The agricultural sector has not yet fully recovered from the de-capitalization experienced during the civil war.

With recent developments in the rehabilitation of infrastructure that includes main roads and bridges, agricultural production gradually started to increase since 2002. However, crop yields remain very low as compared to other countries in sub-Saharan Africa. According to FAO statistics, the average yield in Angola of beans is 0.34 tons/ha compared to 0.6t/ha in the region; groundnuts 0.38 t/ha compared to 0.88 t/ha in the region and millet 0.24 t/ha compared to 0.7 t/ha in region. This implies that there is substantial scope for increasing crop yields and production through agricultural modernization and technical change as well as through an increase in cultivated area. However, this will require the use of animal traction power, adoption of improved agronomic practices, improvements in soil fertility, use of modern agricultural inputs, bringing cropped area under irrigation, and disseminating agricultural knowledge to farmers. In addition, there is a substantial scope and need to strengthen market linkages, improve commercialization and build

agro-business facilities through local entrepreneurs.

At present, almost 80 percent of the farmers are smallholders, with weak capacity and limited knowledge of improved agricultural practices. Human capital in agricultural education, research and extension institutions suffered a great deal during the civil war and have not yet been fully strengthened or replaced. The institutional capacity in the agricultural sector, including irrigation and agricultural statistics, is extremely weak. The agricultural programs are designed and implemented by the Ministry of Agriculture at the national level and by the Departments of Agriculture at the provincial levels. The capacity of these agencies needs to be strengthened as well.

The Bank-supported Angola Market Oriented Smallholder Agriculture Project (MOSAP), approved by the Board in July 2008 and implemented over the past years, was designed to increase agricultural production through the provision of improved agricultural services and investment support to rural smallholder farmers. Activities implemented under the project include: (a) training of over 44,000 smallholder farmers in the use of improved agricultural technologies to boost production of the major crops targeted by the project (the training was provided by service providers recruited under the Project as well as training provided by FAO to over 14,000 producers on family farms through Farmers' Field Schools); (b) training of more than 60 technicians; and (c) provision of financial support to over 14,000 smallholder beneficiaries through financing of around 280 sub-projects ; and (d) capacity building for staff from the Agrarian Development Institute (ADI) of the Ministry of Agriculture at targeted municipalities.

In addition to the provision of capacity building, MOSAP contributed to: (i) an increase in agricultural production; and (ii) the adoption of improved technologies in the project areas. The crop index during the 2013/14 season was 64 percent against an overall project target of 10 percent. The major crops supported under MOSAP were: maize, beans, cassava, and Irish potatoes. About 66 percent of smallholder famers have adopted an improved technology promoted by the project against a project target of 30 percent.

As indicated earlier, with the exception of cassava, the average yield of major crops cultivated in Angola, including maize, beans, Irish potatoes, is still extremely low, even compared to yields in other countries in Sub-Saharan Africa. There is a large potential for increasing crop yields and agricultural production in the country. There are (at least) three major reasons justifying increasing public and private investments in the agriculture sector:

- (i) To ensure institutional continuity and scaling up of the on-going but limited support to smallholder farmers in Angola. As indicated, MOSAP has been critical in promoting agriculture recovery following the end of the civil war, strengthening institutions, and bringing formerly displaced agricultural producers back to agriculture in the project areas.
- (ii) To improve economic diversification. Angola possesses large and well-endowed natural resources including land and water. Almost two-thirds of the Angolans earn their livelihood from agriculture, a sector that could become one of the engines of economic growth and source of productive rural employment, provided capacity building and investments in public infrastructure and private assets take place. Unless investments are made to lay the foundations for future agricultural growth, national economic growth and diversification (which are critical in light of declining international oil prices), income, employment and foreign exchange earnings/savings will be seriously constrained.

(iii) To ensure sustainable use of natural resources. Despite the low levels of economic activity, the country already faces various pressures on its natural resources, such as wastage of water and overuse of pastures and subsequent soil erosion (largely attributable to population pressures; desertification); and deforestation of tropical rain forest in response to both international demand for tropical timber and to domestic fuel use. Investments in an efficient use of water for irrigation and promotion of soil conservation techniques, including erosion control and enhancement of soil fertility, and natural resource management, will ensure a sustainable use of soil and water and will, over time, contribute towards mainstreaming climate smart agricultural practices.

The proposed Smallholder Agriculture Development and Commercialization Project (SADCP) intends to scale-up activities being implemented under MOSAP and will also finance critical new activities, as per government's medium and long-term agriculture programs. MOSAP is scheduled to close on December 31, 2015, i.e. in eleven months. The implementation of the new project is expected to start on January 1, 2016. Given the popularity of MOSAP in the project areas as well as with agencies dealing with agriculture, government indicated preference for keeping the name of MOSAP and calls this project MOSAP-2.

Relationship to CAS

The Bank CPS for FY13-16 aims at (i) deepening diversification for inclusive growth; (ii) enhancing the quality of decentralization for services delivery; and (iii) building human resources capacity. The CPS recognizes the role of agriculture and the need to increase agriculture productivity and competitiveness to reduce rural poverty and promote growth. The proposed Smallholder Agriculture Development and Commercialization Project is a critical instrument to contribute to achieving the CPS objectives

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to increase smallholder agricultural production and marketing in the project areas.

Key Results (From PCN)

21. The proposed project is expected to provide assistance to about 200,000 smallholder farmers in three provinces. The key results expected from the proposed project are: (i) to increase yields of selected crops, including cassava, maize, beans and Irish potatoes to the average yield levels prevailing in sub-Saharan Africa; (ii) to increase production of selected crops; and (iii) to increase the share of crop production that is marketed. In addition to these key results indicators, the results framework will also measure intermediate performance indicators for each of the components that will be developed during project preparation. These indicators will include the percentage of farmers who benefit from training and apply their knowledge; the average yields of major crops supported by the project; the percentage of the agriculture produce marketed by the smallholder farmers in addition to other indicators that will be discussed and agreed upon during project preparation.

22. The strategy to achieve key results under the proposed project is to build upon the outcomes achieved under the on-going MOSAP and support smallholder farmers to increase agricultural productivity, production and market linkages that generate self-sustaining agricultural growth over a larger project area, as compared to MOSAP. This will be achieved by: (a) building on potential synergies with on-going agricultural programs; (b) maximizing opportunities for quick-win results

by focusing on farmers that received training under MOSAP or other programs and have applied their knowledge); (c) strengthening the knowledge and skills of smallholder farmers and their associations as well as of agricultural extension staff and agricultural services providers; (d) re-capitalizing productive agricultural systems and infrastructures, including irrigated agriculture; (e) providing access to demand-driven agricultural services and agricultural markets; and (f) promoting rural entrepreneurship in agri-business development. As far as possible, investments will be based on a flexible, participatory and demand-driven approach that promotes enhancement in productivity, commercialization and sustainability of agricultural activities.

III. Preliminary Description

Concept Description

The proposed project is designed to be climate smart, gender and jobs responsive and nutrition sensitive. The project is consistent with the main agriculture development programs in the country. Angola tends to experience seasonal rain variability and sometimes even long periods of drought that affect agricultural production. The proposed project will promote appropriate adaptation practices, including irrigated agriculture, to reduce such production losses. The project will support the participation of women in different project components, including farmers associations, production, marketing and training. The project will have a positive impact on employment and job creation in the rural areas by contributing to increased agricultural production, marketing, agri-business and value addition as well as increased demand for agricultural inputs and services. Finally, since the project will promote the production of beans and vegetables, it is likely to have a positive impact on the food security and nutrition of rural households.

The proposed project is a follow up project to the on-going MOSAP. While broadly similar to the original MOSAP project, the new project differs in the following important aspects. First, it is larger in scope in terms of absolute funding and number of beneficiaries. Second, it includes a sub-component to support the development of small-scale irrigated agriculture. Third, in addition to food crops (maize, cassava, beans and Irish potatoes), it will emphasize the production of high value crops, particularly horticulture. Fourth, it will further strengthen commercialization of agriculture, including market linkages, contract farming and agri-business development.

The SADCPC project area would cover the whole country for capacity building and institutional development activities. However, investment would be limited to the same provinces of Bie, Huambo and Malanje but with more coverage to municipalities. MOSAP was limited to three provinces covering 12 municipalities and only 50,000 beneficiaries. The proposed project would significantly expand the number of municipalities and communes covered under MOSAP and cover about 200,000 smallholder beneficiaries. Besides the high potential for agricultural production, the selected provinces also meet the following criteria:

- Well-endowed with resources, in particular land and water. Smallholder farming systems are already sustainable and profitable. Smallholder activities in these areas, before the civil war, included producing a wide range of crops, including most cereals and high value products such as vegetables (notably potatoes and onions). These areas appear to have high agricultural potential.
- High concentration of rural population. The three provinces have around 52 percent of the population that is considered rural, as compared to 38 percent nationally. Overall, the three provinces account for about 24 percent of the rural population in Angola (2014 Population Census).

- Proximity to potential markets and possibility of benefiting from the rehabilitated road network and railways. Hopefully, this will facilitate the strengthening of market linkages and commercialization.

The target groups of the project will be smallholders in the selected provinces with a potential to increase agricultural production and commercialization. The potential project beneficiaries will be divided into the following three categories: (i) Group 1 of 1,000 beneficiaries that are likely to benefit from irrigated agriculture, production and marketing activities (primarily horticulture) with a possibility for contract farming; (ii) Group 2 of 49,000 beneficiaries that are likely to benefit from production and marketing activities related to food crops and horticulture; and (iii) Group 3 of 150,000 beneficiaries that are likely to benefit from capacity building, production and marketing related to key food crops. Specialized capacity development training may also be provided to beneficiaries in Groups 1 and 2 that may have also benefitted from capacity development under MOSAP.

The proposed project will have three components: Component 1 - Capacity Building and Institutional Development; Component 2- Support for Agricultural Investment; and Component 3- Project Management, Monitoring and Evaluation. The proposed project is expected to be implemented over a period of five years from January 2016 through December 2020. The total cost will be US\$125 million, of which US\$20 million will be contribution by the Government of Angola and US\$5 million equivalent will be in-kind contribution by the beneficiaries. A 100 million IBRD loan will constitute the remainder of the total cost. Overall, the project is expected to support about 200,000 beneficiaries (members of about 6,500 farmer associations) with approximately 300,000 ha cropped land (on an average, 1.5 ha per beneficiary and with a range of about 0.50 ha to 2.5 ha per beneficiary).

Component 1. Capacity Building and Institutional Development (US\$30 million)

As under MOSAP, this component would focus on strengthening national, provincial and municipal institutions, develop technical capacity and introduce participatory processes to accelerate the decentralized agricultural development. This component will also aim to strengthen the technical and managerial skills of participants and institutions involved in agricultural production and marketing in the project areas. This component entails the following four sub-components:

- a. Formation and strengthening of Farmers' associations, which would include organizational and managerial capacities, and technical skills related to modern agricultural technologies and agronomic practices, agricultural production, marketing, investment and entrepreneurship. Training of vulnerable groups (e.g. female-headed households) will be given special attention. This will also include training of farmers through farmers' field schools (FFSs), as is being done under MOSAP.
- b. Institutional strengthening of local, provincial and national units of the Ministry of agriculture (MINAG) to ensure that these institutions can better play their respective roles in the sector. This sub-component would include support for strengthening institutional capacity in agricultural extension services (including linkage with research), agricultural research service, small scale irrigation, agricultural marketing and agricultural statistics. In addition, the capacity of MINAG staff will be enhanced to prepare and implement appropriate agricultural programs and

policies. There will also be support for strengthening market information systems, linked to farmers' and traders associations. Finally, the project will also support linkages with research programs relevant to agriculture that are being undertaken by the Ministry of Science and Technology.

c. To strengthen agricultural research capacity and global knowledge about the latest technologies related to selected crops relevant to Angola, support to specific agricultural research will also be provided. Possible collaboration with both the International Institute for Tropical Agriculture (IITA) and the Brazilian Corporation of Agricultural Research (EMBRAPA) will be developed/further strengthened to address agricultural research and disease management issues that are critical for existing (cassava, maize and beans) and emerging crops (soybean) in Angola. As part of the CGIAR, IITA is responsible for carrying out research related to cassava, maize and beans in Africa. EMBRAPA has been working closely with Angola in building agricultural research capacity, including breeding for disease and pest resistance, in the context of integrated disease and pest management.

d. Strengthening capacities of private and NGO agricultural service providers, especially those working closely with the smallholder farmers. Among other activities, this would include support for smallholder farmer groups or associations to prepare investment proposals for various sub-projects for funding under the project as well as support for managerial and business capacities of new and existing agri-business entrepreneurs.

Component 2. Support for Agricultural Investment (US\$55 million)

This component supports investments in agriculture assets, both of a public as well as a private goods nature, with the aim to improve agricultural productivity, competitiveness and market linkages of farmer beneficiaries (groups and individuals). The smallholder farmer beneficiaries will be required to make a small in-kind contribution (of at least 10 percent) to the investments that they receive based on criteria to be established during preparation. The investment component will, in the first year, consider farmer associations that received training under MOSAP. This component consists of the following sub-components:

(a) Support for the Development of Small Scale Irrigation

This sub-component will deal with the rehabilitation of existing and the development of new small scale irrigation systems. The Central Highlands, particularly comprising large parts of the provinces of Malanje, Huambo and Bie, have excellent conditions and water resources for development of small scale irrigated agriculture. Productive soils and water resources are abundant. Topographical conditions make it possible to develop irrigation by gravity. Gravity irrigation is particularly favorable for the development of small scale irrigated agriculture for smallholders. Some smallholder communities have already created and managed gravity irrigation schemes. With their own resources (mainly labor and local materials) they derive water from small streams by (temporary) weirs to a network of unlined earthen canals for irrigation. The management and operation of these systems requires limited financial resources (the scarcest resources of smallholders). However, the efficiency and productivity of these systems will be improved by simple and cost-effective measures such as the construction of permanent weirs, the tubing and lining of canal stretches with infiltration losses, construction of culverts to cross roads and (natural) drainage streams etc.

(b) Support for Agricultural Production Investments

This sub-component will support investments in farm assets. In order to access matching grants for investment sub-projects, farmer associations have to submit project proposals. This sub-component will assist eligible participants in the preparation of detailed proposals that will allow an informed decision about their feasibility from technical, economic, financial, social and environmental perspectives. The potential funding proposals (list will be finalized during preparation) will consider dealing with any activity that will increase crop productivity and production. Few examples are draft animals, simple tools and agricultural equipment, soil fertility/quality improvement, soil conservation, seeds of improved crop varieties, fertilizers and integrated pest and disease management. In addition, matching grants will also be provided to individual enterprises in the rural areas that will provide critical agricultural services to smallholders in the project areas.

A review and evaluation of existing schemes will be carried out as part of the project preparation to help determine what kind of support might be needed and appropriate. This assessment will also include on-going experiences and scope for the provision of rural financial services in Angola that are currently being provided by local and international NGOs. The main goal of this component is sustainable increase in agricultural production for the smallholders.

(c) Support for Value Addition and Marketing Infrastructure

This sub-component will support investments related to market linkages and commercialization, including value addition, post-harvest management and marketing activities for key crops and horticulture. The critical issues that need to be addressed are packaging, storage, small-scale processing, and marketing infrastructure and even contract farming. The main focus will be on value addition, reduction of post-harvest losses and market linkages. All sub-projects requesting financing under this sub-component will prepare a project proposal and a business plan that will go through a complete appraisal process to determine the economic feasibility and sustainability. Specific list of sub-projects that will be supported under this sub-component will be identified during preparation of the proposed project.

Component 3: Project Management, Monitoring and Evaluation (US\$10 million)

This component deals with coordination and monitoring and implementation of the project and consists of two sub-components:

a. Project Management:

The purpose of this sub-component is to ensure that the project is implemented correctly, on time and in accordance with the Loan Agreement. This would be the responsibility of a Project Coordinator and a small team of experts located at the national, and provincial or municipal levels. The final arrangements for project management will incorporate the lessons learned under MOSAP.

b. Project Monitoring and Evaluation:

The monitoring and evaluation (M&E) system will be established that will be responsible for collecting and processing appropriate information to verify the output, effect and eventually the impact of project activities over time. Baseline information will also be collected at the beginning of the project.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	95.00	Total Bank Financing:	70.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			20.00
International Bank for Reconstruction and Development			70.00
LOCAL BENEFICIARIES			5.00
Total			95.00

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