

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA34772

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	05-Feb-2016
Date PID Approved/Disclosed	09-Feb-2016
Estimated Date of Appraisal Completion	19-Feb-2016
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Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Angola is one of Africa's resource-rich countries, with most of its recent economic growth based on mineral resources such as oil and diamonds. The oil sector accounts for almost 45 percent of gross domestic product (GDP), 95 percent of total export value, and 80 percent of government revenues. Angola experienced a long civil war following independence from Portugal in 1975. The conflict, which lasted almost 25 years and ended with a peace agreement in 2002, destroyed most of the country's productive infrastructure (particularly for the agriculture sector) and deeply impacted its social and economic development. Angola covers an area of about 1.25 million km² and has a total population of 24.3 million. According to the 2014 population census, 52 percent of the total population are women and about 38 percent live in rural areas.

Although agriculture contributes only about 10 percent to GDP –compared to 60 percent from the

industrial sector and 30 percent from services – almost two-thirds of Angola’s population depend directly or indirectly on agriculture for their livelihood and income. The Food and Agriculture Organization (FAO) estimates that almost 68 percent of economically active adults in Angola worked in the agriculture sector in 2014. More than half of Angola’s poor are located in rural areas and depend almost exclusively on agriculture for their livelihood. Almost one-third (33 percent) of agricultural households are headed by women. Women are responsible for 70 percent of traditional subsistence agriculture and 24 percent of commercial agriculture.

Oil prices declined by over 50 percent between June 2014 and June 2015, which has led to important changes in the economy: a current account deficit - the first since the financial crisis of 2008/09; a scarcity of foreign currency; and local currency (kwanza) depreciation and inflationary pressures, with annual inflation currently around 14 percent. On the fiscal front, the drop in oil prices drastically reduced government revenues, leading the government to promote large cuts in government expenditures, including the virtual elimination of fuel subsidies, the cancelation of capital expenditures, and a reduction in acquisitions of goods and services.

These changes spurred the government to reduce the country’s dependence on the oil sector and to promote diversification of the economy, including an expanded role for agriculture. Angola depends heavily on food imports. Increased agricultural production (particularly cereals and vegetables) and productivity have the potential to ease the current account pressures and the foreign exchange scarcity.

While reasonable progress has been made, Angola is not likely to meet the Millennium Development Goal (MDG) targets in 2015. Angola ranks low on both human development and business environment indicators. Its overall institutional capacity remains weak, while bureaucratic hurdles and governance challenges inhibit private sector growth. Performance related to social indicators is mixed: good progress has been made in poverty reduction, primary education, and gender equality since 2002, but despite these achievements, other social indicators remain very poor. For example, life expectancy at birth in Angola is about 51 years. Maternal mortality is 450 out of 100,000 births, and malnutrition is acute – 30 percent of children less than five years of age suffer from stunting and 16 percent are underweight.

The overall poverty rate declined from 62 percent in 2001 to about 37 percent in 2009, a major achievement, but much more needs to be done to reduce poverty as part of the shared prosperity agenda. Major regional disparities in the poverty rate exist across different provinces as well as between rural and urban areas. The rural poverty rate is almost 58 percent, in contrast with an urban poverty rate of less than 30 percent; in the capital city of Luanda (with a population of about 5 million), the poverty rate is only about 9 percent. Smallholder agricultural development and commercialization are hence critical to reduce rural poverty.

Although Angola used to be a major agricultural exporter, a large share of the food consumed in the country is currently imported, with the exception of roots and tubers. For example, almost 36 percent of cereal consumption (about 1.1 million tons) is met through imports. This is due in part to the destruction of the agricultural production and marketing infrastructure during the civil war and in part to macroeconomic imbalances. The large amounts of foreign currency from oil revenues have strengthened the country’s currency, as manifested in rising exchange rates (i.e., an overvalued exchange rate). This phenomenon, often called “Dutch disease,” has resulted in the nation’s imports becoming cheaper, thereby making the domestic agriculture sector less

competitive. After the decline in international oil prices, however, the value of local currency also declined, providing an incentive to reduce imports and increase domestic production.

In light of low international oil prices, declining oil revenues, and limited proven oil reserves, the government is in the process of implementing policies that will increase national revenue and reduce national expenditure. At the same time, the government is striving to improve the business climate to promote economic development, diversification of the non-oil economy (including agriculture), and competitiveness. This is critical since Angola was: (i) rated 181 out of 189 economies on the World Bank's "Ease of Doing Business Index" in 2015; and (ii) rated low on the World Economic Forum's Global Competitiveness Index in 2014. Growth in the non-oil economy, particularly agriculture, now appears robust (partly due to its low base). Government efforts to improve the business climate are likely to have a positive impact on diversification, competitiveness, and growth of the non-oil economy, including agriculture.

Angola has an estimated 35 million hectares of arable land, of which less than 4 million hectares are currently under cultivation. Overall, agricultural productivity and crop yields are extremely low. The soils are generally fertile in the north and the Central Highlands (Bié, Huambo, and Malanje Provinces) and average rainfall exceeds 1,000 mm/year. In other words, the country has enormous potential to increase cropped area, raise crop yields, and exploit the potential of the country's diverse agro-climatic regions to increase agricultural and food production.

Global experience suggests that agricultural growth has much higher potential to reduce rural poverty than growth in any other economic sector. Inclusive growth in the agriculture sector can not only reduce rural poverty but can also make a major contribution to enhance shared prosperity, diversify the economy, accelerate economic growth, increase food security, improve social indicators in rural areas, and achieve the MDGs. The proposed Smallholder Agriculture Development and Commercialization Project (SADCP) aims to provide a major impetus to the agriculture sector that will not only increase productivity and production but will also improve the lives of rural poor people by reducing poverty, promoting balanced growth, and transforming agriculture in the project areas.

The SADCP will contribute to the World Bank's twin goals of poverty reduction and shared prosperity in rural areas, where poverty is almost twice than in urban areas. The project, which includes about 10 percent of all rural households in Angola, will be implemented in three relatively poor provinces of the Central Highlands. According to the 2008-2009 Household Survey, the Central Highlands region's poverty incidence is estimated to be 69.4 percent. The SADCP is expected to increase agricultural productivity, enhance market linkages, increase farmers' income, and reduce rural poverty. The proposed project will promote shared prosperity by enhancing agricultural growth and reducing inequities at the regional and sectoral levels. Specifically, the project will promote social inclusion by enhancing the role of female-headed agricultural households, which not only account for a large share of rural households but are also the most vulnerable.

Sectoral and institutional Context

Prior to independence, Angola had a long history of exporting agricultural commodities, and was once the world's third largest exporter of coffee. During the colonial period, 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 Portuguese settlers left the country and many former commercial farms and plantations were converted into state farms, which have since been privatized. The civil war resulted in a virtual collapse in commercial production as large numbers of rural inhabitants either fled or reverted to subsistence agricultural production. Rural infrastructure suffered from widespread destruction of roads, bridges, irrigation systems, and warehouses, compounded by the presence of thousands of land mines in rural areas. Although the situation has improved with the rehabilitation of main roads and bridges and clearance of mines, the agriculture sector has not yet fully recovered from the destruction and decapitalization. As a consequence, agricultural exports are currently negligible.

With an annual average share of 10 percent (2009-2014), agriculture is the third largest contributor to GDP. However, public spending in the sector has not only been low but has declined over time. For example, the share of the agriculture in the national budget in 2013 was 1.10 percent (US \$701,760,000); in 2014, the share was 0.50 percent (US\$597,382,000); and in 2015, the share was 0.41 percent (US\$543,900,000). It is important to note that in addition to budget for the Ministry of Agriculture (MINAGRI), budget is also allocated for agriculture under the ministries of Commerce, Industry, and Transport. Due to the decline in oil prices and oil revenues, the national budget will be constrained from increasing agriculture's allocation. Public investment support is critical to capitalize agriculture, rebuild agricultural infrastructure, strengthen institutions, and increase investment in agricultural research and extension. In light of Angola's recent experience, increased public and private investment is needed in agriculture and public private partnerships must be promoted.

While the agriculture sector is essential to promote national development and economic diversification, its potential will remain untapped if productivity does not increase significantly. Agricultural production has increased gradually since 2002 (end of the war), but crop yields remain very low compared to other countries in Sub-Saharan Africa. According to FAO, the average yield of beans in Angola is 0.34 ton/ha compared to 0.60 ton/ha in the region; the average yield of groundnuts is 0.38 ton/ha compared to 0.88 ton/ha in the region; and the average millet yield is 0.24 ton/ha compared to the regional average of 0.70 ton/ha. Substantial scope clearly exists for increasing crop yields and crop production through use of improved agricultural technology as well as through an increase in cultivated area. This will require the use of animal traction, mechanization, adoption of improved agronomic practices, improvements in soil fertility, use of modern agricultural inputs, increased cropped area under irrigation, and dissemination of agricultural knowledge to farmers. In addition, there is a substantial scope and need to follow a value chain approach, strengthen market linkages, improve commercialization, and build agribusiness facilities through local entrepreneurs.

MINAGRI is responsible for the design and implementation of agricultural policies and programs at the national level to attain food security and sustainable commercial agriculture. At the provincial level, MINAGRI is represented by Provincial Directorates of Agriculture (DPA), and at the municipal level by the Estacao de Desenvolvimento Agrario (EDAs). Among others, MINAGRI's key agricultural programs at the national and provincial levels consist of agricultural research, extension, technology transfer, and irrigation. Substantial scope remains to improve the content, coverage, and performance of these agricultural programs, particularly for the benefit of

smallholder farmers.

Within MINAGRI, the Agriculture Development Institute (ADI) is responsible for development of smallholder agriculture and extension services. As defined in the Medium-Term Agricultural Development Program 2013-17 (ADP), ADI's mandate is to support smallholders throughout the country. ADI is present in 128 out of 131 municipalities in the country through the EDAs. Under extension services, ADI promotes the organization of agricultural production and the introduction of technologies to increase agricultural production and productivity to improve smallholder rural households' living conditions. ADI faces institutional constraints such as weak human resource capacity and poor housing conditions for staff in municipalities and communes. ADI's staff total 699, of which 104 have a university degree and 595 are medium-level technicians.

At present, 80 percent of Angolan farmers are smallholders who produce over 90 percent of all agricultural production in the country. The main constraints they face include: weak capacity and limited knowledge of improved agricultural practices and technology; poor access to extension services; limited access to modern inputs, including seeds and fertilizers; inadequate market information; and post-harvest losses. The agriculture sector's institutional capacity is extremely weak as well, including for irrigation, policy analysis, and agricultural statistics. The project will respond to these constraints through: supporting training in improved practices, marketing, and organizational skills; providing better access to improved extension services; improving access to inputs (seeds and fertilizers); and forming and strengthening farmers' organizations through training in group formation, collective marketing, and business skills.

The Market Oriented Smallholder Agriculture Project (MOSAP), approved in July 2008 and implemented over the past six years, was designed to increase agricultural production through the provision of improved agricultural services and investment support to smallholder farmers. Activities implemented under MOSAP include: (a) training of over 44,000 smallholder farmers in the use of improved agricultural technologies to increase crop production (the training was provided by service providers recruited under the project as well as by FAO to over 25,000 producers on family farms through Farmers' Field Schools (FFS) ; (b) training of more than 60 agricultural technicians within MINAGRI; (c) financial support to over 14,000 smallholder beneficiaries through financing of around 280 subprojects ; and (d) capacity building for ADI staff in targeted provinces and municipalities. In addition to capacity building, MOSAP contributed to: (i) an increase in agricultural production; and (ii) the adoption of improved technologies for maize, beans, cassava, and Irish potatoes in the project areas.

The SADCP will scale up MOSAP to reach additional beneficiaries in more municipalities and communes in the same three provinces: Bié, Huambo, and Malanje. Additionally, the project will include rehabilitation of 1,000 ha of small-scale gravity-fed irrigation schemes as a pilot program for smallholders. Building on lessons learned from MOSAP, the SADCP strongly emphasizes capacity building, institutional development, and sustainability by strengthening MINAGRI's capacity for statistics, policy analysis, market information, irrigation development, and agricultural extension. Also building on lessons learned, the SADCP aims to mainstream environmental considerations and climate-smart agriculture (CSA) practices into the project design through investments in more efficient use of water resources, promotion of soil conservation techniques, and integrated natural resource management.

II. Proposed Development Objectives

The Project Development Objective is to increase smallholder agriculture productivity, production and marketing for selected crops in the project areas.

III. Project Description

Component Name

Component 1. Capacity Building and Institutional Development

Comments (optional)

The objective of this component is to improve the technical, institutional, managerial, and marketing skills of 150,000 farmer beneficiaries and to strengthen the capacity of government agricultural extension specialists, agricultural research institutions, private agricultural service providers, and NGOs related to different aspects of agriculture, including value chains. The expected results are: (i) smallholder farmers' organizations established and strengthened; (ii) technical and managerial competence of smallholder farmers improved; and (iii) government capacity to support smallholder agricultural production and commercialization enhanced

Component Name

Component 2. Support for Increased Production and Commercialization

Comments (optional)

The objective of this component is to support value chain development of selected crops through demand-based matching investment grants to smallholder farmers' organizations to improve agricultural productivity, production, and market access for 50,000 eligible beneficiaries. The beneficiaries for investment support will be selected from those trained through FFS under MOSAP, the SADCP, or any other training program. This component will support three kinds of investments in the value chain, including: (i) rehabilitation of small-scale irrigation schemes; (ii) agricultural production and productivity improvements; and (iii) post-harvest management for value addition, including storage, processing, and marketing facilities.

Component Name

Component 3: Project Management, Monitoring and Evaluation

Comments (optional)

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 subcomponent is to ensure that the project is implemented correctly, on time, and in accordance with the Loan Agreement. This will be the responsibility of a Project Coordinator (PC) and a team of experts located at the national and provincial levels.

b. Project Monitoring and Evaluation:

The M&E system will be established to be responsible for collecting and processing appropriate information to verify the output, effect and eventually the impact of project activities over time.

IV. Financing (in USD Million)

Total Project Cost:	95.00	Total Bank Financing:	70.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			20.00

International Bank for Reconstruction and Development	70.00
LOCAL BENEFICIARIES	5.00
Total	95.00

V. Implementation

The project will be implemented by the Ministry of Agriculture (MINAGRI). MINAGRI will be responsible for overall project implementation, in consultation with the other relevant ministries at the national level, to ensure that project activities are consistent with national policies. A Project Coordination Committee (PCC), chaired by the Minister (or, by delegation, the Secretary of State) of Agriculture will oversee overall project implementation, including approval of the annual work plan and annual report. The Director General of Agriculture Development Institute (ADI) within MINAGRI will be the executive-level manager of the project. A Project implementation Unit (PIU) headed by the Project Coordinator will be established within ADI and charged with (national-level) day-to-day project management. A small executive Project Implementation sub-Committee (PISC) of the PCC will be established to accelerate project implementation and decision making.

At the provincial level, ADI will be responsible for project implementation, in coordination with the Provincial Directorate of Agriculture and in consultation with other relevant provincial government agencies as well as provincial-level representatives of the other ministries involved. A Provincial Project Coordination Committee (PPCC), chaired by the Vice-Governor responsible for economic development, will oversee project implementation, including monitoring project progress at the provincial level and making decisions in line with the objectives and institutional arrangements consistent with project documents and legal agreements. The Provincial Director of ADI will be responsible for project implementation. Headed by a Provincial Project Coordinator, a PPIU will be established within the provincial ADI and charged with day-to-day management of the project. A small executive PPISC of the PPCC will be established to accelerate decisions and procedures.

At the municipal level, ADI's Agricultural Development Offices (EDAs) will be responsible for project implementation, in coordination and consultation with the municipal administration. The EDAs will obtain the consent of the municipal administration before forwarding subproject proposals to the provincial level. The project will assist in capacity building of EDAs, provide technical assistance to EDAs, and engage service providers to assist EDAs in their work related to project implementation.

Although the project will largely rely on FAO that will be hired to provide technical assistance to subcomponent 1.1 and on an experienced service provider for Component 2, overall implementation will be the responsibility of ADI, which will set up a PIU for daily project management. FAO and the service provider will report to ADI through the PIU. In terms of key staff, both FAO and the service provider will only hire international senior staff with qualifications and experience that is not available in country. These staff will also support the in-job training for ADI staff at all levels.

The project will be under the general oversight of the Project Coordination Committee (PCC), chaired by the Minister of MINAGRI. The PCC will include representatives from the Ministries of Finance, Planning, Trade, Social Affairs, and other relevant government entities. The PCC will be responsible for approving the annual work program and budget, providing necessary policy guidance to the PIU, addressing any emerging problems likely to affect project implementation, and providing oversight during project implementation.

Coordination and technical implementation of the project will be the responsibility of the PIU, reporting to ADI, specifically the Director General of ADI. The PIU will include a Project Coordinator, Agricultural Specialist, Communication Specialist, Safeguards Expert, M&E Specialist, Senior Procurement Specialist, FM Specialist, Accountant, and other relevant positions to support project implementation.

Each beneficiary province will have a PPIU. PPIUs will have a maximum of five staff, including a Provincial Coordinator, and will collaborate with local EDAs to facilitate project implementation at the provincial level. The project will finance the salaries of externally hired staff and limited technical assistance and training, office equipment and vehicles, and operational costs. The project will also finance the costs of periodic financial audits.

FAO will be hired to provide technical assistance for subcomponent 1.1. FAO will be hired by MINAGRI on a Single Source Selection (SSS) basis because of its unique expertise in the field, and will report to the government through the PIU which is the implementing agency.

Component 2 will be implemented by a service provider hired on competitive basis, based on Terms of Reference (TORs) agreed with the Bank. Component 2 will provide demand-based support in the form of matching grants to smallholder farmers' groups and organizations for small-scale irrigation, production, processing, and marketing subprojects. The subproject implementation arrangements include the following steps and elements:

- (i) Identification, which originates at the beneficiary level through a facilitated participatory development planning exercise, resulting in an identified subproject proposal. The service provider will work with local NGOs to support the formation and capacity building of smallholder farmers' groups and associations to identify and prepare subprojects using participatory planning exercises. The subproject proposals, after approval by local smallholder committees, are submitted to EDAs.
- (ii) Appraisal, where service providers in partnership with NGOs will prepare the respective subproject documentation for submission to EDAs or Provincial Agricultural Offices. All subprojects are screened for technical, financial, economic, social, and environmental feasibility.
- (iii) Evaluation, whereby all subproject proposals are evaluated by the PIU. This includes verification of all eligibility and feasibility criteria.
- (iv) Approval, based on criteria described in Annex 2.
- (v) Implementation, under which service providers, Provincial Agricultural Offices, the PIU, and PPIUs will be responsible for overall coordination of implementation of approved subprojects. The project FM and Procurement Specialists will support this process. Whenever possible and justifiable, procurement will be done by beneficiaries or with their full involvement through local smallholder committees, with the project processing payments on their behalf.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x

Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37	x	
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

The activities supported by the project are expected to have minimal environmental implications. However, because of the rehabilitation of small scale irrigation and likely use of pesticides by farmers, the project has been rated as Category B and three safeguard policies were triggered: Environmental Assessment (OP/BP 4.01), Involuntary Resettlement (OP/BP 4.12), Pest Management (OP 4.09), and Safety of Dams (OP/BP 4.37). To ensure compliance with Bank Safeguard Policies, the Government has prepared an Environmental and Social Management Framework (ESMF), an Integrated Pest Management Framework (IPMF) and a Resettlement Policy Framework (RFP) and all have been disclosed in country and at the Bank InfoShop.

VII. Contact point**World Bank**

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