

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC54426

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| <b>Project Name</b>                    | Multi-sector Investment Planning for Climate Resilience  |
| <b>Region</b>                          | AFRICA   |
| <b>Country</b>                         | Ethiopia   |
| <b>Sector(s)</b>                       | Forestry (45%), General agriculture, fishing and forestry sector (45%), Public administration- Agriculture, fishing and forestry (5%), General energy sector (5%)                        |
| <b>Theme(s)</b>                        | Natural disaster management (5%), Climate change (80%), Land administration and management (5%), Water resource management (5%), Other environment and natural resources management (5%) |
| <b>Lending Instrument</b>              | Lending Instrument   |
| <b>Project ID</b>                      | P158987  |
| <b>Borrower Name</b>                   | Ministry of Finance and Economic Cooperation, Federal Democratic Republic of Ethiopia  |
| <b>Implementing Agency</b>             | Ministry of Finance and Economic Cooperation   |
| <b>Environment Category</b>            | C - Not Required   |
| <b>Date PID Prepared</b>               | 01-Mar-2016  |
| <b>Estimated Date of Approval</b>      | 27-Oct-2016  |
| <b>Initiation Note Review Decision</b> | The review did authorize the preparation to continue   |

**I. Introduction and Context**

**Country Context**

1. Ethiopia has achieved substantial progress in economic, social and human development over the past decade, achieving rapid and inclusive economic growth averaging 10.9 percent per year since 2004. At this rate, the economy is doubling every seven years in real terms, accompanied by significant reduction in extreme poverty rates from 55 percent in 2000 (one of the highest levels recorded internationally) to 33 percent in 2011. Low levels of inequality have largely been maintained. Non-monetary dimensions of well-being show strong improvement and, with a few exceptions, Ethiopia attained the Millennium Development Goals. Life expectancy, for instance, increased by one year every year over this period, from 52 to 63 years. Meanwhile, the 2014 population of 95 million people will grow to at least 120 million by 2030.

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

affected, such as North Wollo where the poverty rate has increased by 28 percentage points. A deteriorating natural resource base (forest and soil degradation and loss) increases vulnerability to these risks.

3. In response to such risks, Ethiopia's Ministry of Finance and Economic Cooperation (MoFEC) developed the Climate Resilient Green Economy (CRGE) Facility and Strategy and the Second Growth and Transformation Plan (GTP-2) which incorporates many of the elements of the CRGE Strategy. Together, these national development documents aim to bring Ethiopia to middle-income status by 2025, with a reliance on "green growth" pathways. Both strategies emphasize agriculture and forestry. However, unless steps are taken to build resilience, climate variability and climate change could reduce GDP growth by up to 10% a year, with agricultural growth at particular risk. As a worst-case scenario, in 25 years, Ethiopia will face the risk of achieving only half its total GDP potential.

### **Sectoral and Institutional Context**

4. Climate impacts. The biophysical characteristics within Ethiopia are highly varied, with wet highlands containing 80% of the population and all of the country's and region's broader water towers, to highly vulnerable arid lowlands featuring mobile pastoralism and important trade routes. The extremely diverse landscapes reflect the variation in climate, soil type and production systems across the country. There has been evidence of climate change in Ethiopia for at least the last 50 years. At the national level, temperatures have increased by approximately 1°C since the 1960s. This increase has been felt across all regions. Rainfall nationally is subject to high variability across years, seasons and regions. Yearly variation around mean rainfall levels of 25% is normal, and can increase to 50% in some regions. Despite this complexity, there is evidence of a 20% decrease in rainfall in the south central region of the country. Weather variability leads to extreme weather events and hazards. Within Ethiopia, extreme weather events are common, especially droughts and floods. Alongside the evidence of a changing climate, there is a suggestion that the incidence of droughts and floods may have increased in the last 10 years relative to the decade before. Soil erosion is a key hazard for agriculture with up to 6% of the country at risk.

5. Floods and droughts have resulted in severe loss to agricultural crops and livestock resulting in food security implications. The economic impact depends on the extent of the variability and extreme events but droughts alone can reduce total GDP by 1% to 4%. Soil erosion has been estimated to reduce agricultural GDP by 2% to 3% (around 1% of total GDP). Climate models project that current rainfall variability will continue (-25% to +30% by the 2050s), along with potential changes in the intensity and frequency of extreme events. The Government has defined a set of planning assumptions about how climate may change in future, based on the available data. These assumptions will be reviewed and revised as data and science improves:

- a. Continued temperature increases of 0.8 to 2.7°C. Mean temperatures have been increasing and are likely to continue to do so with climate change.
- b. Year-to-year rainfall variability is the most significant climate variable and rainfall is likely to be less predictable with more frequent extremes in future.
- c. Parts of the country could see changes in key seasonal rainfall. The pattern of the rains could change, which would have major implications for rural livelihoods and food security, particularly in Somali, South Oromia and parts of SNNPR.

6. Land degradation and forest loss increase water stress. Vulnerability to water stress due to insufficient and increasingly variable rainfall and poor natural resource management is a binding constraint to increasing income from natural resource based sectors such as agriculture, livestock and forest. Ethiopian farmers rely almost entirely on rain-fed agriculture and seasonal rainfall is very volatile in large parts of the country. Ethiopia experienced more droughts than its structural peers implying that rain-fed agriculture and pastoralism are relatively risky businesses. Climate change is increasing this volatility, negatively affecting rural incomes and poverty. Volatility also constrains investment of rural land users in profitable enterprises and technologies. While the country has made great strides in landscape restoration that has rehabilitated watershed function via structural and vegetative land management actions, there remains a large gap to be filled by investment in resilient landscapes.

7. Ethiopia's MoFEC has requested the World Bank to lead on multi-sector investment planning to scale up achievement of goals related to resilient low carbon green growth. The Bank has been providing initial support via on-going advisory services for the country's Climate Resilient Green Economy (CRGE) Facility and Strategy and the Second Growth and Transformation Plan which incorporates many of the elements of the CRGE Strategy. MoFEC in 2015 then requested funds from the Climate Investment Funds' (CIF) Pilot Program for Climate Resilience (PPCR) to support investment planning for forest and agriculture – two sectors where the Bank is currently providing and convening large-scale financing and is taking measures to boost sustainability and resilience. The Bank financing is complemented by many other development partners and significant public expenditure and planning processes, necessitating a comprehensive approach to coordinated investment planning across sector and stakeholders to boost efficiency and effectiveness.

#### **Relationship to CAS/CPS/CPF**

8. The World Bank's 2016 Systematic Country Diagnostic prioritizes climate action for poverty reduction, endorsing the GTP-2's prioritization of investment in resilient landscapes for tangible gains in the primary sectors of forest, agriculture (including livestock), water, energy, and the importance of sound natural resource management that underpins these sectoral aspirations.

9. This small grant support helps deliver on the Bank's twin goals of ending extreme poverty and boosting shared prosperity by 2030, the FY13–16 Country Partnership Strategy, as well as the Bank's new Forest Action Plan and Climate Business Plan launched at the December 2015 Paris climate conference. The rationale for convening resources programmatically for resilient landscapes in Ethiopia is to harness the potential of natural resource based sectors to help reduce poverty equitably. The grant will therefore contribute to the twin goals and the Country Partnership Strategy objective of fostering economic growth and improved governance while reducing vulnerability. The vast majority of Ethiopia's population is rural and directly dependent on natural resources for income, biomass energy (94 percent dependency), food, building materials, and water and as their principal buffer against drought, floods, and other climate or disaster risks. There is therefore a clear link between the renewable natural resource base and how it boosts the prospects and resilience of the bottom 40 percent. This supports Ethiopia's ambition to achieve middle-income status by 2025 through green growth strategies.

## **II. Project Development Objective(s) Proposed Development Objective(s)**

10. The PDO is to support Ethiopia's effort to develop a programmatic multi-sector investment plan (MSIP) for climate resilience in key sectors. Responding to MOFEC's 2015 request to the CIF, this small recipient-executed grant would begin with forest and agriculture sectors which also takes into consideration activities in livestock, water resources, irrigation, and energy as pertaining to resilient landscapes.

### **Key Results**

11. The grant will help convene institutions, information, investment and incentives to scale up financing for climate action on resilient landscapes, supported by a variety of sources and stakeholders. The proposed PDO indicators would be:

- a. MSIP for climate resilience in key sectors prepared (Y/N);
- b. Key analytics and dialogues supported (number).
- c. Government institutions provided with capacity building support to improve resilience (number).

## **III. Preliminary Description**

### **Concept Description**

12. This 19-month grant would finance the development of a strategic, inclusive programmatic multi-sector investment plan (MSIP) for climate resilient development activities, including forest, agriculture, livestock, water and energy sectors. The MSIP preparation process is Government-owned, led by the Ministry of Finance and Economic Cooperation (MoFEC) and including the Ministry of Agriculture and Natural Resources (MoANR), the Ministry of Environment and Climate Change (MEFCC), the Ministry of Water, Irrigation and Electricity (MoWIE), and the Ministry of Livestock and Fisheries (MoLF). This grant complements on-going Bank-executed work with the same agencies and counterparts on multisector planning for the country's CRGE strategy and Facility. The proposed small grant is an extension of this work, bringing greater visibility, accountability, credibility, and inclusivity to the existing process, enhancing the potential of the sectors involved to deliver transformational impact.

13. The grant's objective would be accomplished through analysis of key development plans, policies, strategies, and existing or planned large-scale investment operations; targeting and leveraging financing opportunities, and broad consultation with key stakeholders and partners. This process will also examine the potential, merits and mechanisms for Ethiopia to access, combine and leverage global climate finance opportunities to support a long term series of transformational investments, including potential PPCR funds, greater use of IDA and other multi- or bi-lateral funds toward climate resilience goals, performance based financing, as well as private financing in the form of PPPs or other modes.

14. Expected output: One comprehensive, unified, realistic, costed, multi-sector investment plan (MSIP) for climate resilience in the forest and agriculture sectors. The MSIP would be expected to consist of a pipeline of large scale, programmatic investment concepts that serve to further the aims of the GTP-2, the CRGE Strategy and other relevant national strategies and policies. This MSIP would be informed by (i) key analytical inputs for sector planning, (ii) increased awareness and support of stakeholders and development partners, and (iii) a plan of action for leveraging and channeling international climate financing and "conventional" financing. The MSIP would build on and incorporate all major GoE strategies (GTP-2, Agriculture PIF, REDD+, Forest/Agriculture resilience strategy), investment planning processes or opportunities (such as IDA, Green Climate

Fund proposal, The Africa Climate Business Plan, etc.) and existing large-scale operations (such as the large-scale Bank-financed Sustainable Land Management Program, Agricultural Growth Program, Productive Safety Nets Program, and the Oromia Forested Landscape Program), while also incorporating lessons from other projects such as the first generation of small projects funded by MOFEC's CRGE Facility. As such the MSIP process would build credibility by centering on an inclusive and consultative process with numerous development partners and other stakeholders.

15. Added value: The MSIP process would help Ethiopia to systematically convene, coordinate and complement financing for resilience objectives in forest, agriculture, livestock, water and energy from a variety of existing and future sources, and via multiple channels such as blended climate and non-climate financing, private investment, government budget, direct financing to CRGE Facility, bilateral support, pooled and stand-alone financing, among others. The process would also enhance and expand GoE's existing large scale resilience programs (like SLMP, et c.); help fill gaps in resilience responses (i.e. insurance, performance-based payments, etc.); strengthen the credibility of investment proposals, plans, programs, projects, and policies; and reduce transaction costs to Ethiopia and her partners from overlaps and duplications. By doing so, the MSIP process would boost GoE capacity for cost-effective and efficient scaled up action on the ground as well.

16. Through the strategic MSIP process, the GoE seeks to address some of the key challenges/barriers for the efficient management of its climate-vulnerable natural resource-based sectors and pave the way for a more green and resilient development path. The PPCR could usefully support Ethiopia's CRGE initiative and provide additional focus on the resilience aspects of programming, as well as cross-sector bottlenecks and trade-offs that may arise, for example with water and energy sectors. In this regard, the preparation grant is a resource that can contribute to the overall MSIP process by providing technical/analytical skills, resources for consultations and a core government team to guide the process of development. This would also support the existing efforts and leverage larger investments across the participating sectors.

17. During scoping -- already on-going due to the CRGE TA support from the Bank -- the main activities include: identify a core group of stakeholders; organize and plan meetings; confirm the focal point from each Ministry to form the core team members; prepare detailed activities for implementation of the grant; prepare appropriate briefing materials; and announce and conduct the scoping mission. As a result, a synthesis document that outlines policies (including CRGE Strategy, mitigation and resilience related strategies), national development plans (GTP-2), INDC and other programs and activities will be developed.

18. During analysis, technical, policy and institutional assessments will be carried out. Accordingly, (i) a technical assessment document which includes assessments of cross-sector tradeoffs and defining incremental resilience needs and assessing gaps (potential vs actual) will be prepared; (ii) a policy assessment document which presents analysis of the current policy framework, focusing on the critical legal and policy gaps necessary to achieve climate resilience (e. g., adoption of infrastructure norms), as well as international examples and innovations will be prepared; and (iii) an institutional assessment document which presents analysis of institutional capacity and coordination, staffing, and knowledge and awareness needs will be developed.

19. During prioritization, investment concepts will be prioritized, considering sector investments, enhancements to existing investment operations, institutional strengthening, financing

options, and collaborative arrangements, among others.

#### 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:      | 1.5 | Total Bank Financing: | 0             |
| Financing Gap:           | 0   |                       |               |
| <b>Financing Source</b>  |     |                       | <b>Amount</b> |
| Climate Investment Funds |     |                       | 1.5           |

#### VI. Contact point

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