

**PROJECT INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: PIDA19698

<b>Project Name</b>	Second Agricultural Growth Project (P148591)
<b>Region</b>	AFRICA
<b>Country</b>	Ethiopia
<b>Sector(s)</b>	General agriculture, fishing and forestry sector (30%), Irrigation and drainage (30%), Agricultural extension and research (20%), Ag ro-industry, marketing, and trade (20%)
<b>Theme(s)</b>	Rural services and infrastructure (50%), Water resource management (20%), Micro, Small and Medium Enterprise support (10%), Gender ( 10%), Nutrition and food security (10%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P148591
<b>Borrower(s)</b>	Federal Democratic Republic of Ethiopia
<b>Implementing Agency</b>	Ministry of Agriculture
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	07-Feb-2015
<b>Date PID Approved/Disclosed</b>	09-Feb-2015
<b>Estimated Date of Appraisal Completion</b>	09-Feb-2015
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<b>Decision</b>	

## I. Project Context

### Country Context

Ethiopia is a large and diverse country. It is land-locked and located in the Horn of Africa, with an area of 1.1 million km<sup>2</sup>. Its bio-physical environment includes a variety of ecosystems, with significant differences in climate, soil properties, vegetation types, and agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities and peoples, with a total population of 91.7 million (2012). Only 17 percent of the population lives in urban centres, the great majority of them in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia's population is estimated to reach 130 million by 2025, and is projected by the UN to be among the world's ten largest countries by 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks as demonstrated by the 2011/12 East Africa drought.

Ethiopia has a federal, democratic government system, established in the early 1990s, with nine autonomous states ('regions') and two chartered cities. Decentralization of governance to the

regional and district (woreda) levels has been actively pursued since 2003. The Ethiopian People's Revolutionary Democratic Front (EPRDF) has been in power in Ethiopia since 1991. EPRDF comprises four regionally-based parties from the four major regions (Amhara, Oromia, Southern Nations, Nationalities and Peoples (SNNPR), and Tigray). The long-serving Prime Minister, Meles Zenawi, (from Tigray) died in August 2012 and was succeeded by Hailemariam Desalegn (from SNNPR) who has pursued largely the same policies. The next national elections are scheduled for 2015.

Ethiopia has experienced strong economic growth over the past decade. Economic growth averaged 10.7 percent per year in 2003/04 to 2011/12, compared to the regional average of 5.0 percent. Growth reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Private consumption and public investment have driven demand side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth was driven by an expansion of the services and agricultural sectors, while the role of the industrial sector was relatively modest. Recently, annual growth rates have declined slightly, but still remain at high single-digit levels. Growth in the export of goods has also moderated in recent years and a decline was observed in 2012/13 for the first time since 2008/09. There have been bouts of high inflation in recent years and, while inflation is currently much lower, keeping it down remains a major objective for monetary policy.

Ethiopia is one of the world's poorest countries, but has made substantial progress on social and human development over the past decade. The country's per capita income of US\$470 is substantially lower than the regional average of US\$1,257 and among the ten lowest worldwide. Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program (UNDP). High economic growth, however, has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of close to US\$1.25/day). However, because of high population growth, the absolute number of poor (about 25 million) has remained unchanged over the past fifteen years. Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs for gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has been made in universal primary education, although the MDG target may not be met. Reduction of maternal mortality remains a key challenge.

GoE is currently implementing its ambitious Growth and Transformation Plan (GTP; 2010/11-2014/15), which sets a long-term goal of becoming a middle-income country by 2025, with growth rates of at least 11.2 percent per annum during the plan period. To achieve the GTP goals and objectives, GoE has followed a "developmental state" model with a strong role for the government in many aspects of the economy. It has prioritized key sectors such as industry and agriculture as drivers of sustained economic growth and job creation. The GTP also reaffirms GoE's commitment to human development. Development partners have programs that are broadly aligned with GTP priorities.

The World Bank Group's Country Partnership Strategy (CPS, FY13-16) builds on the progress achieved by Ethiopia in recent years and aims to help GoE address structural transformation and assist in the implementation of the GTP. The CPS framework includes two pillars. Pillar One,

“Fostering competitiveness and employment”, aims to support Ethiopia in achieving: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, “Enhancing resilience and reducing vulnerabilities”, aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar One.

### **Sectoral and institutional Context**

The agricultural sector remains a dominant sector in the Ethiopian economy and an important source of economic growth. Although there is an on-going structural transformation in the Ethiopian economy, predominantly from agriculture to services and manufacturing, agriculture still comprises 45 percent of total output and continues to dominate employment (78 percent). The sector is also a major contributor to export earnings, with over 80 percent of goods exports. Despite its declining share in the economy, the agriculture sector is growing rapidly. Over the past 15 years the average rate of growth has been around seven percent per year according to official statistics. Sources of growth have come from an increased area under cultivation and from increased productivity, the latter driven by large public investment in the sector, including agricultural extension, rural roads, and advances in public policy such as improvements in land tenure security. In addition to contributing to economic output and exports, agricultural growth is correlated with poverty reduction, for smallholder farmers and also through positive impacts on non-farm rural economies.

Although Ethiopia has a trend of negative overall balance of trade, the country has consistently had a positive balance of trade in the agriculture sector. The agriculture imports per capita and exports per capita stood at \$13.28 and \$18.27 respectively in 2011. The top three agriculture exports have been coffee, oil seeds and pulses while the largest imports have been cereals, edible oils and sugar. In spite of the positive trade balances in the sector, marketing (including intra-regional trade) in the sector is constrained by mixed and often unfavorable policies for input and output markets and poor infrastructure leading to high transportation costs. There remains considerable potential for both increased exports from the sector and further import substitution, especially for cereals (predominantly wheat) and sugar.

The further growth of the agriculture sector is expected to feature prominently in the second phase of the GTP (GTP-II), currently under preparation. Maintaining the current growth rate in the sector will be challenging as recent gains from land expansion may be exhausted, and further increases will need to come from increased agricultural productivity. Progress requires both investment and policy reform. The general thrust on policy reform is to pursue agricultural transformation by increasing private sector investment and value added in the country to increase the value of exports. In 2012, the Government agreed a G8 New Alliance framework for Ethiopia with a number of commitments for policy actions to facilitate the expansion of private investment. Under this framework, the Government intends to focus its efforts in particular on: i) increasing stability and transparency in trade policy; ii) improving incentives for the private sector investment; iii) developing and implementing a transparent land tenure policy; and iv) developing and implementing domestic seed policies that encourage increased private sector involvement in this

area. To support the transformation agenda, the Government established the Agricultural Transformation Agency (ATA) in 2011 to support the Ministry of Agriculture to advance policy and build capacity. Notable achievements include the new Agricultural Cooperatives Development Strategy and the passing of the Seeds Proclamation.

The Government's agricultural development strategy focuses on both encouraging large scale investment in commercial agriculture and support to smallholder farmers, who in 2012/13 contributed 96 percent of the total agricultural production according to official statistics. To increase agricultural productivity of smallholders and their transformation to commercial farmers requires a strengthening and focusing of support services and infrastructure, and greater private investment to support input and output value chains. To drive this transformation, the Government is moving towards focused support to specific commercialization clusters targeting areas with the highest potential for the production of commodities for which Ethiopia has a comparative advantage and can stimulate agro-processing and value addition.

Despite the large investment into public agricultural services, especially into extension, which has seen a rapid rise in the number of extension workers and beneficiaries served year on year, there are capacity weaknesses which continue to inhibit the identification and dissemination of technologies to support increased productivity. Strengthening research and extension linkages, further expansion and capacity of the extension service and enhancing farmer access to inputs are required to support investments in extension workers. Improving agriculture research has been prioritized in GTP and the same is expected in GTP II because of the pivotal role it plays to improve agricultural productivity and production and recognizing that in recent years it has been underfunded. Animal health and production services also suffer from capacity limitations and low outreach, leading to low productivity and quality across a range of animal products.

Access to and application of agricultural inputs is a decisive factor to improve agricultural productivity and production. In addition to improved seeds, animal breeds and fertilizers, there is considerable opportunity to promote the use of machinery for production and post-harvest activities. Innovations such as row planters for teff have had a considerable impact on productivity. However, input markets in Ethiopia are typically overly dependent on cooperative unions and the agro-dealer market is small and underdeveloped. While cooperatives can play an important role in linking smallholder farmers to input and output markets, they are often hampered by weak management and facilities, and currently only handle a small percentage of agricultural output. There is potential for strengthening cooperatives while also enabling greater private engagement in both input and output markets.

Output marketing system and infrastructure in Ethiopia are dominated by traditional, informal exchanges. For a large part of the country, this means trading with limited infrastructure. There are few market structures, storage, loading and unloading facilities, quality checking and banking services in or around most of the market centers. This has resulted in the cost of trading being very high due to cumbersome conditions for transaction, low product qualities and post-harvest losses. Value chains (other than for coffee which has a relatively efficient market structures) are therefore characterized by an absence of market participants, market inefficiencies and limited value addition. With increasing agricultural surpluses, rapid urbanization and increased opportunities for agro-industrial investment, there are gaps in the current functioning in a number of value chains which are prioritized under the commercialization cluster approach to achieving transformation.

Agricultural water development is crucial to improve smallholders' livelihood and income in Ethiopia, since irrigation can help farmers increase their crop production, increase crop varieties, and lengthen their agricultural seasons. From a very low base, over the next five years there are targets to increase the total area of irrigated land from the current 640,000 hectares (about 4 percent of currently cultivated land) to about 1.8 million hectares. Small Scale Irrigation (SSI) and Rain Water Harvesting (RWH) will account for about two-thirds of this expansion, as these technologies require lower capital and technical investments and they are possible on small plain areas. Beyond the next five years, plans are to reach the full irrigable potential of the country of over 5 million hectares. Household irrigation as well as medium- and large-scale schemes will be an important strategy to achieve this goal, in combination with exploring and developing groundwater potential, especially given that an estimated 85 percent of Ethiopia's total surface water irrigation potential is estimated to be in large-scale schemes.

Future agricultural growth needs to be sensitive to gender. On average, female farm managers in Ethiopia produce 23 percent less (in terms of gross value of output) per hectare than their male counterparts. Differences in both the levels of productive factors used and the returns that these factors generate drive this gender gap. Future inclusive agricultural growth should consider: (i) the promotion of labor-saving technologies for women; (ii) the provision of relevant information to female farmers, customized to the needs of female farmers; and (iii) the easing of the time burden of household responsibilities, by providing services to reduce the time that female farmers need to perform household duties to enable them to devote more time to productive farm activities. Recent research demonstrates the potential of women to contribute to agricultural growth and improve outcomes, including improved nutrition.

In Ethiopia, forty percent of children under the age of five suffer from stunting as a consequence of chronic and cyclical malnutrition. The National Nutrition Program (NNP) was revised in 2013 to strategically address the nutrition problem in the country to include initiatives that have emerged since the 2008 NNP, including taking into account the multisectoral and multidimensional nature of nutrition and the linkages among key implementing sectors, one being agriculture. This program, endorsed by the Ministry of Agriculture, the Ministry of Health and another eight line Ministers, includes a strategic objective to strengthen implementation of nutrition sensitive interventions in the agriculture sector. The initiatives focus on improving the consumption of diversified diets at the household level through: (i) diversification of crop, fruits and livestock production; (ii) promotion of appropriate technologies for food production and processing through the handling, preparation and preservation for food diversification to ensure nutritious food utilization; (iii) building the capacity of Development Agents (DAs) at community level and agriculture program managers at all levels to implement nutrition sensitive agriculture; (iv) supporting local complementary food production and creating economic opportunities for women through development groups and cooperatives; and, (v) supporting agricultural research centers to develop seeds of high nutritional value. Thus, it calls for aligning the agricultural growth programs to improve nutritional status.

With the limits of bringing uncultivated land under production being met, the likelihood of climatic variability and the potential degradation arising from more intensive production practices increases, and thus there is an urgent need for agriculture to conserve resources and reduce degradation. In recent years, considerable amount of work in natural resource conservation and development work has been undertaken. In 2013/14 alone, the communities undertook natural resources conservations work on 20.15 million hectares of land throughout the country, according to official statistics. This current momentum of community mobilization in natural resource conservation by pursuing

activities such as slope stabilization, watershed approaches to water management and reduction of tillage should be sustained to make the sector more resilient and sustainable.

The opportunities for inclusive and sustainable growth in the sector are strong as is the Government's commitment to achieving ambitious growth and transformation targets. The Agricultural Sector Policy and Investment Framework (PIF), 2010 – 2020, provides an investment framework to align the investment and policy priorities with higher level goals to transform the sector and is designed to operationalize the CAADP Compact signed by the Government and its development partners. Under the PIF, there have been concerted efforts to collaborate and partner on investments and the Agricultural Growth Project (AGP I – P113032) was a clear output of this. The first phase of the program was financed to around US\$350 million, including US\$150 million from IDA, US\$50 million from the Global Agriculture and Food Security Program (GAFSP), a US \$50 million Multi-donor Trust Fund with contributions from the Netherlands, Canada and Spain, and parallel financing from USAID and Italy. Currently, AGPI operates at kebele levels (the lowest administrative unit) in 96 woredas of the four regions of Amhara, Oromia, SNNPR and Tigray and has provided support for improved public agricultural service provision, technology transfer, improved market access and marketing, infrastructure (household and small-scale irrigation, feeder roads and market centers) and capacity building. The project further explicitly aims to increase the participation of women and youth in the sector. The proposed project therefore aims to build on AGP1, to scale up the geographical extent, consolidate the investments, and meet the emerging challenges of the sector outlines above.

Under AGPI, the project has been operating in 4 regions (Amhara, Oromia, SNNPR and Tigray), 96 woredas and 2,423 kebeles, targeting 1.57 million direct beneficiaries. The AGP2 project would cover 157 woredas, which would include all woredas targeted under AGP1 plus an additional 61. The woredas are distributed among the following regions: Amhara, Oromia, SNNPR, Tigray, Benshangul-Gumuz, Gambella, Harari and Dire Dawa Administrative Council. The expansion into the new regions and Dire Dawa would be on a limited scale, with two woredas in each of Benshangul-Gumuz and Gambella, and one in each of Harari and Dire Dawa.

## II. Proposed Development Objectives

The Project Development Objective is to increase agricultural productivity and commercialization of small holder farmers targeted by the project.

## III. Project Description

### Component Name

Agricultural Public Support Services.

### Comments (optional)

To increase access to public agricultural services for smallholder farmers, the project will support the strengthening of public services delivery, including for agricultural extension services; animal production and animal health services; crop production and plant health services; natural resource management services; soil fertility management services; and agricultural mechanization.

### Component Name

Agricultural Research

### Comments (optional)

To increase the supply of demand driven agricultural technologies which directly link to the other components, the project will support technology adaptation and generation and the release of

technologies to the agricultural extension system; pre-extension demonstration and participatory research for recommended agricultural technologies; and source technology production, including the production of breeder and pre-basic seeds for major crop varieties.

**Component Name**

Small-scale Irrigation

**Comments (optional)**

To increase the access to and efficient utilization of irrigation water of small holder farmers, the project will support the increased availability of irrigated water through: i) the rehabilitation, upgrading and/or improvement of existing Small-scale Irrigation Schemes; ii) establishment of new SSI systems integrated with access roads where necessary; and iii) household irrigation systems. The project would also support improved water management services through establishing and/or strengthening Irrigation Water Users Organizations and the introduction of improved irrigation agricultural management.

**Component Name**

Agricultural Marketing and Value Chains

**Comments (optional)**

To commercialize small holder farmers through market access and efficiency of input and output markets, the project would support: the promotion and distribution of agricultural inputs, specifically seed multiplication and distribution; the strengthening of formal and informal farmer organizations, including formal farmer organizations and informal, commercially oriented farmer groups; the strengthening of selected livestock and crop value chains; and market infrastructure development and management.

**Component Name**

Project Management, Capacity Building and Monitoring and Evaluation.

**Comments (optional)**

To ensure project implementation, the effective monitoring and evaluation of results and a consistent and effective approach to capacity development, the project would support: project management and coordination; monitoring, evaluation and learning; and the Capacity Building Support Facility.

**IV. Financing (in USD Million)**

Total Project Cost:	581.80	Total Bank Financing:	350.00
Financing Gap:	216.20		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			15.60
International Development Association (IDA)			350.00
Total			365.60

**V. Implementation**

The AGP 2 will build on institutional arrangements and implementation mechanisms established for the AGPI. As in the first phase, the implementation of the project will rely on existing GoE structures, with the exception of parallel funding through the USAID and Canadian DFATD that will be channeled through specific implementation arrangements. The Ministry of Agriculture will have the overall responsibility of the coordination and implementation of the project. To fulfill its

responsibilities, the MoA will use - or will establish in the new targeted regions - the institutional mechanisms already established for AGP 1 at Federal, Regional, and Woreda levels, i.e: (i) the Steering Committees (SCs), (ii) the Technical Committees (TCs), and (iii) the Project's Coordination Units (CUs). The existing composition of these Committees will be reviewed in order to include new implementing agencies such as the Ethiopian Institute for Agricultural Research (EIAR). At the Zonal level, the Zonal Agriculture Office (ZAO) will provide technical support, extension services and M&E to the group of woredas under its authority. The ZAOs will coordinate with the Woreda Offices of Agriculture (WOA).

Implementation of the project will be decentralized. Federal implementing agencies will provide guidance and support to regions, spearhead most institutional capacity building activities and undertake monitoring, evaluation and communication activities. At regional and woreda levels, the Bureaus/Offices of Agriculture will assume primary responsibility for execution of the project. Implementation of AGP at the regional level will also be supported by relevant service providers and institutions.

The annual planning process will follow a two-pronged approach associating: (i) a demand-driven approach based on the Community Level Participatory Planning (CLPP) approach adopted for AGP-I in which communities are assuming primary responsibility for identifying and executing the community-based investment of the project, and (ii) a strategic-based approach in which investments are pre-identified through the Kebele, Woreda and Regional development plan or through specific feasibility studies, and implemented in close collaboration with the community after a consultation process. At the woreda and kebele levels, the implementation of the project would be undertaken jointly by Woreda Office of Agriculture through the Woreda Development Committee (WDC), the Kebele Development Committee (KDC), and the communities. The WDC and the KDC will be guided by their respective SCs and TCs.

## VI. Safeguard Policies (including public consultation)

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

**Comments (optional)**

## VII. Contact point

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