PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA46118

Project Name	Ethiopia - Oromia Forested Landscape Program (P151294)
Region	AFRICA
Country	Ethiopia
Sector(s)	Forestry (90%), General agriculture, fishing and forestry sector (10%)
Theme(s)	Climate change (60%), Environmental policies and institutions (20%), Land administration and management (15%), Water resource manage ment (5%)
Project ID	P151294
Borrower(s)	Ministry of Finance and Economic Cooperation
Implementing Agency	Ministry of Environment, Forest and Climate Change
Environmental Category	B-Partial Assessment
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Appraisal Review Decision (from Decision Note)	

I.   Project Context

Country Context

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 since 2004. Extreme poverty fell from 56 percent in 2000 (one of the highest levels internationally) to 31 percent in 2011. Low levels of inequality have been maintained through this period. Non-monetary dimensions of well-being also show strong improvement. 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.

As an expanding population lives longer, the economy grows, and climate risks intensify, tremendous demands are being placed on the stressed natural resource base. Up to 83 percent of the population is rural and directly dependent on livelihoods and energy from land, forest, and water resources, while urban centers also depend on them for food, water and energy. The natural resource base has been deteriorating over time, which amplifies exposure to substantial environmental and climate risks that affect food and water security, energy, and human health, among others. These risks are reflected in the 40 percent rate of degraded land with another 20 percent under degradation processes, helping drive an annual forest depletion rate of over 1 percent due largely to demand for wood fuel and agricultural land. Deforestation generated an economic

loss over US$ 5 billion from 1990 to2010. The broad economic value of forest services was estimated at 18.8 percent of GDP in 2009 through wood and non-wood forest products and ecosystem services (such as water provisioning, flood and drought risk reduction, inter alia (Nune et al, 2009). Business as usual will lead to an additional nine million hectares deforested between 2010 and 2030 (MOFEC, 2011). This situation is further complicated by the higher probability of extreme weather conditions and increased rainfall variability from climate change.

The Government of Ethiopia (GoE) recognizes the need to re-invest natural capital to drive and protect growth and prosperity. Ethiopia's current challenge is to sustain progress, building on elements of its development strategy that have worked well and that are sustainable. Since the early 1990s, Ethiopia has pursued a "developmental state" model with a strong public sector role in forest, energy, agriculture, and water through its federal system with nine autonomous states ("regions") and two chartered cities. GoE is increasingly emphasizing: (i) sustainable forest sector development, particularly in Oromia where two-thirds of the country's forest is located and where the deforestation trends are greatest, as well as where strategically critical rivers originate; and (ii) better overall management of the natural resource base, as its degradation reduces resilience, especially among the poorest, and hinders economic opportunities.

Ethiopia's development agenda is governed by two key strategies: the Second Growth and Transformation Plan (GTP-2) and the Climate Resilient Green Economy (CRGE). Both strategies prioritize attainment of middle income status by 2025 and, through the CRGE Strategy, to achieve this by taking low carbon, resilient, green growth actions. Both strategies emphasize agriculture and forestry, which the CRGE Strategy reports would "contribute around 45 and 25 percent respectively to projected greenhouse gas (GHG) emission levels by 2030 under business-as-usual assumptions, and together account for around 80 percent of the total abatement potential." The CRGE Strategy targets 7 million hectares (ha) for forest expansion. GTP-2 aims to: "Protect, restore and promote sustainable use of terrestrial ecosystems by managing forests, combating desertification, and halting and reversing land degradation and halt biodiversity loss."

Sectoral and institutional Context

Ethiopia's largest forested landscapes are found in Oromia, which provide critical ecosystem services to the country and to the region. Oromia is Ethiopia's largest regional state in terms of land area (around 28.5 million ha, roughly the size of Italy), population (over 30 million people), and forest cover (approximately 8.7 million ha in total, around 47 percent of the country's total forested area). Based on the proposed national REDD+ forest definition, 274 of Oromia's 277 rural and semi-rural woredas include some forest. Most of Oromia's high forest (moist montane forests) is found in the Bale forested landscape in the southeast and the Jimma/Wollega/Ilubabor forested landscape in the west. Bale serves as the water tower for Ethiopia's eastern drylands in Oromia and the Somali region as well as the country of Somalia, drought-vulnerable arid areas where mobile pastoralism is the predominant livelihood system. Oromia harbors globally important biodiversity with endangered endemic species such as the Abyssinian wolf and the mountain Nyla. Oromia's western forests are home to endemic coffee (Coffee Arabica) that has high potential as a value-added export, and harbor wild varieties of the species. Important rivers also originate in or are affected by Oromia's forests, including those flowing into the new Renaissance Dam under construction.

Forest loss and degradation are increasing in Oromia. Deforestation in Oromia has been particularly

intense in zones in the west (West Wollega, Qeleme Wollega, Ilubabor) and east (Bale and Guji). Preliminary data have shown that throughout Oromia, nearly 157,000 ha of forest was lost between 2000 and 2013, or around 12,000 ha/year. This has resulted in over 46 million tons of CO_2 equivalent emitted into the atmosphere over this period, or around 3.5 million tons annually (calculated based on Hansen et al, 2013 and Det Norske Veritas, 2015). At the same time, the historic afforestation/reforestation (A/R) rate is almost 3,100 ha/year, leading to a gain of over 330,000tons of CO2e annually.

Deforestation and forest degradation in Oromia are driven primarily by small-scale conversions for agricultural expansion as well as wood extraction for firewood and charcoal purposes. Subsistence agriculture is the main economic activity throughout Oromia, with farmers cultivating diverse crops such as barley, wheat, beans, potatoes, and cabbage in highlands and bananas, maize and teff in lowlands. Extraction of fuel wood is a driver of degradation throughout Ethiopia. Firewood is the primary source of energy for 94 percent of Ethiopia's population and the most important forest product consumed in Ethiopia, with total 2013 consumption exceeding 116 million m³. The majority of firewood is produced from natural forest, including woodlands and shrub lands, and current firewood demand is estimated to significantly exceed the sustainable yield potential of remaining forest areas. Indirect drivers include inadequate development and implementation of land-use plans, weak cross-sectoral policy and investment coordination, population growth and migration into forested areas, as well as road expansion.

Forests in Oromia are managed by, affected by, or used by a range of government institutions and citizens. Coordination of investments, institutions, information, and incentives that impact or are impacted by forest resources is extremely weak. Almost all forested areas fall under the mandate of Oromia authorities including the Oromia Forest and Wildlife Enterprise (OFWE) and the Oromia Bureau of Agriculture (BoA). Other regional bureaus responsible for environment, land, energy, and water are also central to forests and land-use change. Bale National Park and four other national protected areas are under the federal mandate of the Ethiopia Wildlife Conservation Authority (EWCA).

To help address the above issues and achieve Ethiopia's CRGE Strategy's objectives on land use change, forest, and climate action, the Ministry of Environment, Forest and Climate Change (MEFCC) is implementing its National REDD+ Readiness Program to prepare the country for receiving and deploying climate finance and other financing. Ethiopia intends to utilize REDD+ related financing to achieve its national ambition for green growth, as articulated in the GTP-2 and CRGE Strategy. With US$ 13.6 million in grant financing for REDD+ Readiness from the World Bank (WB) through the BioCF and Forest Carbon Partnership Facility (FCPF), MEFCC has been implementing a set of "readiness" activities such as: (i) preparation of four REDD+ pilots in different regional states including the proposed Oromia Forested Landscape Program (OFLP, the subject of this PAD); (ii) development of a monitoring, reporting and verification (MRV) system that would be used for justifying emissions reductions payments upon performance including for the OFLP; (iii) development of systems for social and environmental risk management; and (iv) preparation of the National REDD+ Strategy.

One main purpose of the REDD+ pilots is to test different elements of the National REDD+ Readiness Program. The lessons learned from these pilots will inform the National REDD+ Readiness Program and assist Ethiopia to receive and deploy results-based climate finance. The pilots would need to cover relatively large landscapes to reduce transaction costs, leakage risks,

and maximize the likelihood of effectively reducing deforestation.

One of the national REDD+ pilots is the OFLP, which would extend beyond the traditional REDD+ agenda as a long-term programmatic effort to scale-up and finance improved land use, starting with: a (i) mobilization grant; and (ii) results based emissions reductions payments. These two sources of financing form the subject of this PAD. These two complementary instruments would finance the GoE to enhance the enabling environment at state and local levels while supporting action on the ground for landscape restoration and livelihoods improvements. The GoE selected Oromia to test this large-scale jurisdictional REDD+ pilot operation since it has the largest forest cover in the country, and hosts the first REDD+ project in Ethiopia (the Bale Mountains REDD+ project, led by OFWE and supported by Farm Africa). Past pilots such as the renowned Humbo Assisted Natural Regeneration have demonstrated proof of concept of carbon financing for improved land-use in a small degraded landscape, yet moving to scale presents more complex challenges – challenges that are addressed by OFLP.

II. Proposed Development Objectives

The Program Development Objective is to improve the enabling environment for sustainable forest management and investment in the regional state of Oromia.

III. Project Description

Component Name

Enabling Investments (RE grant, 5-year period)

Comments (optional)

Component 1 would finance investment in participatory forest management (including livelihoods support and selected nature-based community enterprise development) and reforestation in deforestation hotspots in sites to be selected, as well as extension services, and land-use planning state-wide at state and local levels.

Component Name

Enabling Environment (RE grant, 5-year period)

Comments (optional)

Component 2 would finance complementary activities to improve the effectiveness and impact of institutions, incentives (i.e., policies, marketing, BSM), information (i.e., strategic communication, MRV) and safeguards management at state and local levels. This component would enhance the enabling environment to help scale up and leverage action on-the-ground to reduce deforestation and forest degradation.

Component Name

Emissions Reduction (ER) Payments (ERPA, 10-year period)

Comments (optional)

ER payments would be delivered once results are achieved, verified by a third party, and formally reported to the WB. Based on the design of the MRV system, it is expected that reporting and verification of ERs can occur every two years. The ER payments would be managed by the GoE and distributed to the beneficiaries according to the Benefit Sharing Mechanism (BSM) to be prepared by GoE, which would aim to incentivize greater uptake of sustainable land use actions. BSM will need to be formally adopted by the GoE before any ER payment can be made. It should be also noted that the ER payments will not cover the full cost of implementing changes in landscape

management. The ER payments will provide some return that offsets some costs of improving the landscape for the wider benefit of all.

IV. Financing *(in USD Million)*

Total Project Cost:	50.00	Total Bank Financing:	0.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	0.00
Carbon Fund	50.00
Total	50.00

V. Implementation

A.   Institutional and Implementation Arrangements

As a strategic multi-sectoral Government program utilizing diverse financing sources and partner support to scale up action, OFLP's institutional arrangement is anchored in the following principles: (i) the institutional set-up would be based on existing federal and state Government structures; (ii) clear institutional roles, responsibilities and procedures based on existing institutional mandates; (iii) extensive multi-sectoral coordination to plan and implement related projects and activities critical for OFLP success; and (iv) coordinating and leveraging selected relevant initiatives (financed by the WB and/or others). The institutional arrangement is detailed in Annex 3A which includes an organogram.

The OFLP institutional structure includes relevant institutions at national, state and sub-state levels with discrete accountabilities and decision making roles based on existing mandates (see Table 1 in Annex 3A). ORCU is the OFLP implementing entity and is administratively hosted by OFWE, and is functionally answerable to the Oromia Regional State Vice President. ORCU will be supported by MEFCC which would carry out a fiduciary oversight role via its National REDD+ Secretariat (in particular on MRV). MEFCC will focus on providing operational guidance to ORCU to carry out its own procurement, financial management and safeguards activities. The regional state's multi-sector REDD+ Steering Committee and Technical Working Group would provide strategic guidance and technical inputs, respectively, to OFLP implementation. OFWE and sector bureaus would implement and coordinate activities on-the-ground through their field staff, woreda offices/experts and kebele development agents (extensionists) who cover forest, agriculture, water, and household energy. Specific activities to be implemented by OFWE and bureaus will be defined in the joint annual work program and budget and joint procurement plan.

OFWE has been administratively hosting ORCU for over a year, given that OFWE's concessions are where the carbon-rich high forest and deforestation hotspots are located. OFWE also has significant PFM implementation experience and is already committed to OFLP objectives. Moreover, given its dual public and private mandates, OFWE is cultivating private sector relationships.

Spatial and thematic coordination and leveraging of REDD-relevant initiatives across sectors would be a strategic feature of OFLP. At regional state level, joint work planning, budget formulation and reporting for OFLP and forest-related policy development/harmonization would take place with the

involvement (as needed) of the President's and Vice-President's offices of Oromia Regional State, OFWE, all relevant bureaus, with ORCU serving as OFLP implementation unit to coordinate this work. At sub-state levels, the woreda administrators and a combination of woreda sector experts and development agents under them already implement a range of initiatives, sector programs and operations that would need to be coordinated and leveraged to deliver on OFLP objectives. To strengthen that effort, 38 OFLP Woreda Coordinators, hosted by OFWE's 38 District Offices, would work throughout the state to: (i) reinforce woreda capacity to coordinate and leverage the implementation of existing and future initiatives that impact or are impacted by forest change; (ii) lead implementation of activities directly funded by OFLP financing (starting with the mobilization grant), (iii) reinforce extension capacity at woreda and kebele levels across relevant sectors to invest in forest cover expansion and protection; and (iv) support safeguards management. Six OFLP Safeguards Coordinators would provide support in concert with the OFLP Woreda Coordinators throughout the state to manage risks and promote sustainability of forest-related interventions. Three OFLP Facilitators would supervise the OFLP Woreda Coordinators and the OFLP Safeguards Coordinators.

Arrangements for fiduciary management including financial management, flow of funds, procurement management and safeguards are in the Appraisal Summary section VI below. Details on implementation arrangements are in Annex 3, and further detail on OFLP's safeguards approach is in Annex 8.

A Program Implementation Manual (PIM) developed by the GoE would be adopted prior to declaring effectiveness of the grant. The PIM would reflect the rules, methods, guidelines, and step-by-step procedures for implementing OFLP, including detailed institutional arrangements, reference and relevant details from the safeguard instruments, citizen engagement, monitoring and evaluation, reporting, governance procedures to be followed, disbursement, financial management, auditing and procurement procedures for OFLP. The BSM will be finalized with grant financing and, once completed, will be a companion volume of the PIM. The approach to nesting carbon finance projects in OFLP would also be included in the PIM.

Key stakeholders include: (i) communities, forest dwellers and users, farmers, herders, cooperatives, and water users who would benefit from OFLP interventions directly or downstream; (ii) federal institutions such as MEFCC, MOFEC, MoANRD, MoWIE, and EWCA; (iii) Oromia regional state institutions such as the Vice President's Office, OFWE and bureaus of agriculture, water, irrigation and energy, rural land and environmental protection, local governments and other public institutions that would either directly implement OFLP and/or benefit from it; (iv) other regional states that could learn from OFLP as they advance their own forest programs and/or REDD+ pilots; (v) community-based organizations and NGOs delivering services to farmers; and (vi) private sector entities involved in providing services such as inputs and extension or in commercial endeavors such as coffee and other forest products. Institutional capacity is slowly strengthening; some of the main challenges include weak multi-sector coordination, overlapping mandates, and inadequate staffing at all levels.

B.   Results Monitoring and Evaluation

Monitoring and Evaluation (M&E) is guided by an overarching PDO, under which is a PDO for the grant and a PDO for the ERPA, with a results framework for each. Having an overarching PDO helps to bind the two instruments together, while the respective grant and ERPA PDOs allows the

success of the grant to be independently monitored from the ERPA.

The M&E system would be implemented by ORCU as the OFLP coordination unit, which is hosted by OFWE. The ORCU coordination unit would be staffed with an M&E specialist (and support staff). The OFLP M&E system would operate at regional, zone, woreda and kebele levels using dedicated OFLP staff working closely with existing Government staff at each level in bureaus, zones, woreda offices, and Development Agents (DAs) working at kebele level.

Data will be gathered on a semi-annual and annual basis, drawing as much as possible from existing data sources and information management tools to be put in place. This includes the M&E system, the Forest MIS as well as the regional MRV system. Specific templates would be designed for data collection and detailed training provided to relevant staff on how these would be used.

There would be periodic implementation support missions with an M&E focus over the lifetime of both the grant and the ERPA period of the Program. OFLP would also include a Mid-Term Review approximately 24 months after grant effectiveness to assess progress and identify areas for course correction where needed. An Implementation Completion and Results Report (ICR) will be conducted at the end of the grant period as per WB procedures.

Monitoring, Reporting and Verification (MRV) and Reference Level (RL) for the ERPA

The results in terms of reducing deforestation and net GHG would be based on the monitoring of changes in forest cover (activity data) and associated GHG emissions (based on emissions factors for the different types of forests within the regional state) compared to a business-as-usual baseline or Reference Level (see Annex 7 for details).

The Reference Level for OFLP and monitoring would rely on and be linked to the national Reference Level and MRV system that is currently being developed as part of the national REDD+ Readiness Program (refer to section I.B on Sectoral and Institutional Context). MEFCC would be setting the Reference Level and would have the primary responsibility for monitoring information and reporting. At the same time, other data (for example data used for estimating removals from A/R activities), would be reported by OFWE to MEFCC so it can be integrated.

It is expected that the national Reference Level and MRV system will become available by mid-2016. Until that time, OFLP is developing its own Reference Level using best available data (see Annex 7). The preliminary version of the net reference level (version 0) is almost 3.2 million tCO2 equivalent emitted into the atmosphere every year.

C.   Sustainability

The sustainability of OFLP is found in: (i) the financial and non-financial benefits that the Program aims to put in place, including ER payments and improvements in the enabling environment to scale up financing, and (ii) the ownership and implementation of OFLP across Government institutions including agencies responsible for forest, agriculture, energy, water, wildlife, environment and land. During preparation, dialogue took place at every level of government, across sectors. OFLP would function as a 'scale up engine' to attract new financing for different sources towards the Program objectives, which would directly contribute to the Program's sustainability. These additional resources could come from the GoE, other donors, private sector or others; and ORCU will actively

work on coordinating existing financing and attracting new sources of financing (capacity is being built with support from the grant). The OFLP management costs should be covered after year 5 (once the grant mobilization is closed) by a small portion of the annual ER payments. In addition, associated co-benefits would also contribute to sustainability of the intervention, such as through improved water quality and quantity from intact and new forest, improved access to household energy, and livelihoods benefits associated with these. In addition, community ownership of the intervention such as through PFM, would enhance sustainability, and the existing community experiences from PFM and SLMP-2 would present a solid track record to count on good program implementation performance and local ownership. Moreover, the Government's newly established REDD+ learning network and the already established network for SLMP could reinforce a stronger feedback loop on knowledge exchange, in line with national efforts on forest and climate.

Improvements to the enabling environment for sustainable land-use would generate inherent sustainability through such actions as: (i) private sector development, in particular community natural resource-based enterprises and value chain development; (ii) leveraging and crowding-in of various on-going initiatives and new financial resources toward sustainable land uses and forest management; and (iii) establishment and strengthening of a multi-sector platform for action including resource mobilization, policy development and harmonization, land use planning, institutional capacity building, and safeguards management.

VI.   Safeguard Policies (including public consultation)

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

Comments (optional)

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