



# Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Apr-2021 | Report No: PIDC31416

**BASIC INFORMATION****A. Basic Project Data**

Country Ethiopia	Project ID P176167	Parent Project ID (if any)	Project Name Ethiopia Integrated Agricultural Development Program (P176167)
Region AFRICA EAST	Estimated Appraisal Date Nov 08, 2021	Estimated Board Date Feb 23, 2022	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture	

**Proposed Development Objective(s)**

The program development objective (PDO) is to increase competitiveness of strategic agricultural value chains and strengthen livelihood resilience of program beneficiaries.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	750.00
<b>Total Financing</b>	535.00
<b>of which IBRD/IDA</b>	500.00
<b>Financing Gap</b>	215.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	500.00
IDA Credit	250.00
IDA Grant	250.00

**Non-World Bank Group Financing**



Counterpart Funding	35.00
Local Beneficiaries	35.00

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

- Ethiopia is one of the world’s fastest growing economies (8.4 percent growth rate in 2019) and the second most populous country in Sub-Saharan Africa (109m population; 80 percent rural).** With an estimated per capita income of US\$869 (2019), Ethiopia remains one of the poorest countries in the world but has achieved substantial progress in economic, social, and human development over the past three decades. Despite these gains, around 30 million people in Ethiopia lived on less than US\$1.90 (2016). About 88 percent of these poor people reside in rural areas and agriculture remains the foundation of their livelihoods.
- The Government of Ethiopia (GoE) has embarked on an economic reform program that is more ambitious than has been seen in recent past.** The “Homegrown Economic Reform” program, initiated in 2018, aims to (i) accelerate income growth of both rural and urban households and thereby further reduce poverty and ensure food sovereignty (the right of Ethiopians to define their own food systems and access healthy and culturally appropriate food); (ii) promote structural transformation of the economy that builds on rapid growth in agriculture but envisions greater dynamism in the industrial and service sectors; (iii) promote job creation for a growing labor force given a demographic profile where close to 70 percent of the population is under 30; and, (iv) foster a climate resilient and green economy. Increased focus on the role of the private sector and on regional trade integration are noteworthy features of the reformed approach.
- While the country is going through a notable political-economic transition, it remains vulnerable to internal and external stress factors.** Some of these are chronic: high poverty rates, especially in rural areas where 26 percent of the population falls below the national poverty line; food insecurity (12.9 million people are expected to face acute food insecurity between January and July 2021); and increasing climate vulnerability exasperated by frequent shocks (e.g., 8 major droughts in the past 15 years). Macroeconomic imbalances which have been prevalent for several years have led to soaring inflation rates in the past year. These are exacerbated by several acute challenges: active conflict in several regions has displaced large



segments of the population and worsened the food security situation beyond the shocks already caused by locust infestation or flooding. With about 250,000 positive cases as of April 26, 2021, Ethiopia has the fifth highest number of COVID-19 cases in Sub-Saharan Africa. Although it did not impose strict lock-down measures, the relatively high incidence of COVID-19 nonetheless has had serious implications on the overall economy.

4. **Job creation is central to the Government’s agenda; it aims to generate almost 2 million jobs annually to meet the aspiration of its youth.** While manufacturing and services sectors are projects to create significant jobs, the food system – currently accounting for two thirds of all employment – will remain a major job creator in the coming decades (it account for xx of the new jobs created between 1999 and 2003). Employment generation in the sector will, however, undergo a structural change, with a lesser share of employment being generated in primary agriculture (on-farm), and more (and better) jobs being created within the up-and downstream segments of the broader agri-food system: input markets (seed, feed, fertilizer, etc.), mechanization and irrigation services, services, processing, logistics, wholesale and retail.

#### Sectoral and Institutional Context

5. **The performance of the Ethiopian economy is highly correlated with the agricultural sector.** The sector is not only a source of immediate income and employment, but also (i) a key determinant of livelihood and resilience for much of its population, (ii) a potential driver of exports to the urbanizing centers of the African continent (and beyond), and (iii) a critical element for any strategy for economic growth and poverty reduction. Livestock is a dominant sub-sector, contributing 20 percent of foreign exchange earnings of the country, and approximately 35 to 40 percent of agricultural GDP.

6. **The agricultural sector grew by an average of 7.6 percent per year over the last decade, and it contributed significantly to poverty alleviation by reducing poverty by 0.9 percent each year.** Agricultural growth has been driven by strong yield growth and area expansion, which increased by 7 and 2.7 percent during 2004-14, respectively. Significant increases in the adoption of improved seeds and fertilizer and considerable public investment in the sector, including agricultural extension, rural roads, small scale irrigation, etc. played a major role in promoting higher yields. **While agricultural growth, starting from a low base, has been impressive there are concerns about the ability to sustain such growth in future—particularly in light of climate change and the country’s under-developed irrigation potential as well as the continued use of environmentally unsustainable agricultural practices.** Consequently, growth rates are declining, and agriculture GDP grew by average of 4.1 percent in the second phase of the Growth and Transformation Plan (GTP II; 2015-2020) in comparison to 6.3 percent during the GTP I period. This highlights the need to re-think strategy for accelerating and sustaining agricultural growth in Ethiopia.

7. **The country has two major land-use topographies: The Highlands and the Lowlands.** Ethiopian highlands, where more than 58 percent of the population resides, have been the economic growth center of the country, with high average annual rainfall and ambient temperature to grow a diverse range of commodities. The area is the breadbasket of the country and accounts for 90 percent of the area planted, while only covering 37 percent of the total landmass. With limited options for geographical expansion of



cultivable land, a focus toward agricultural intensification coupled with sustainable land and water management practices will be necessary for continued growth in these areas. The semi-arid lowlands, on the other hand, are home to 12-15 percent of the Ethiopian population and are primarily engaged in pastoralist modes of production. The GoE policy is currently to promote the expansion of large-scale irrigated farming, harmonized with pastoralists' livestock production systems in these areas. The World Bank is supporting development efforts in the lowlands through a US\$451 million Lowland Livelihoods Resilience Project (LLRP, P164336) and a US\$75 million Regional Pastoral Livelihood Resilient Project (RPLRP, P129408) together with Uganda and Kenya.

8. **In order to meet the country's ambitious agenda, investments in the sector need to address the sector's low resilience and low competitiveness as a prerequisite to achieving the objectives of food and nutritional security, import substitution, export diversification, accelerated green growth, and job creation.** It requires a comprehensive and integrated farm-to-fork approach for transforming agricultural food systems which contribute to healthy people, healthy economy, and a healthy planet.

9. An integrated agriculture development approach, comprising of cross-sectoral coordination around water, energy, infrastructure, private and finance sector development, environment and health, will need to address several challenges:

- **Climate change, particularly in the form of more frequent and severe droughts and floods, and erratic weather patterns.** Ethiopia has seen 8 major droughts in the past 15 years, with significant adverse consequences for the economy and livelihoods. Long-term climate change predictions are mixed, but the consensus is that droughts and floods will continue to be a major stress factor over the next few decades and weather volatility is likely to increase. In addition to weather, biotic and abiotic stressors increase the vulnerability of the agriculture sector. In 2020, Ethiopia witnessed the worst locust plague in the past 25 years, partially driven by changing climate. Investments in climate smart agriculture will be required to improve both mitigation and adaptation of the sector.
- **Strategic water management, fundamental for ensuring the climatic resilience of the Agricultural sector.** Only 1.2 million has (less than 8 percent of the total cultivated land area)) are currently irrigated in Ethiopia and 92 percent of crop production is rainfed. Investments in construction of irrigation and water storage infrastructures including small dams, ponds/tanks and other relevant community and household water harvesting structures and the promotion of natural storage by way of watershed treatment (enriching the aquifer storage), need to be scaled-up to achieve Ethiopia's full agricultural potential.
- **Land degradation and appropriate soil fertility management practices.** ETHIOSIS data reveals that 28 percent of Ethiopian soils are acidic while a significant proportion is alkaline which renders large tracts of land unusable or provides sub-optimum production. Soil fertility management needs to be part of an integrated strategy.
- **Yield gaps, especially in the livestock and horticulture sub-sectors.** Ethiopia has seen significant increases in yields over the past decade. Yet, major gaps remain, and the agricultural services systems need to be re-oriented to provide differentiated and tailored agricultural services for these sub-sectors to attain their optimum production potential.



- **Post-harvest losses, which for many commodities are in double digits.** Adequate investments into an integrated supply chain for minimizing post-harvest losses are much needed to enhance competitiveness.
- **Private sector engagement in the sector (beyond smallholder farmers and their cooperatives) that will drive commercialization, promote market-led development, strengthen the linkages of the sector with manufacturing and create jobs.** Distortive policies, overbearing influence of the state in business and macroeconomic imbalances keep private investment at bay. The dominant presence of the state through (a) commercial activities in the form of State Owned Enterprises (SOEs) competing on a non-level playing field and (b) distorting policies for example, on access to foreign exchange and sporadic export and import bans reduce predictability for private investors, limiting their incentive to invest. Private participation into the sector requires (a) an enabling environment to ensure a supportive and level-playing field, and (b) improved access to agriculture finance, which is currently very low <sup>1</sup>, (c) support to an ecosystem comprising of micro, small and medium enterprises and (d) institutional capacity building of the commercial sector.
- **To support agricultural food system transformation and in line with its economic reform program, the GoE is reforming its Agriculture and Rural Development Policy.** The agricultural policy reform includes 6 key changes (further details are provided in Annex 1): i) Increased focus on labor productivity in agricultural production—moving beyond just yield enhancements; ii) focus on strategic value chains from the perspectives of export diversification and import substitution; iii) increased emphasis on land and water development within a holistic approach including improved governance, consolidation of resources and rational use of resources; iv) greater focus on rural development, adopting a broader approach beyond agriculture, to promote closer integration of the agricultural sector with the rest of the economy; v) attention to increased capital flows to the sector; and vi) shift in the role of the public sector in supporting agricultural development—moving away from the current approach of public sector led development towards the promotion of more pluralistic systems.

10. **The MoA has prepared a 10 Year Agriculture Sector Perspective Plan (2020-2030) with the objective of structural transformation of agriculture.** The plan aspires to enhanced productivity, value addition and competitiveness of smallholder agriculture, resulting in increased income and poverty reduction of farmers and pastoralists, as well as achieving food and nutrition security. The Ten-Year Perspective Plan has identified 8 strategic interventions: (i) transforming rainfed agriculture to irrigated agriculture; (ii) promoting agricultural mechanization; (iii) supporting smallholder commercialization and emerging commercial farmers; (iv) enhancing livestock resource, feed resource and livestock health; (v) developing horticulture; (vi) promoting rural job creation and involvement of the private sector; (vii) strengthening implementation capacity; and (viii) building resilience of the agricultural sector.

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<sup>1</sup> It is estimated that less than 20 percent of smallholder farmers in Ethiopia have access to financial services and only 4.9 percent of the total outstanding credit went to the agriculture sector (National Bank of Ethiopia, 2018). Furthermore, the share of private sector agri-finance is largely limited to coffee and sesame exporters with a lion's share being taken by input finance for cooperatives and unions through federal and regional SOEs.



11. **It is in the context of the revised Agriculture and Rural Development Policy and the 10 Year Perspective plan that the Integrated Agricultural Development Program (IADP) is being proposed as the next flagship program of the MoA to contribute to agri-food system transformation, enhanced competitiveness, and improved resilience.** This Program focuses on three main pillars i) improved efficiency in agricultural production; ii) increased commercialization of the agricultural sector; and iii) strengthened rural livelihoods through rural job creation, enhanced response to emergencies and supporting improved household nutrition.

#### Relationship to CPF

12. The proposed Program supports the GoE’s vision for structural transformation of the national economy and fully aligns with the World Bank Country Partnership Framework (CPF) approved in 2017 for the period FY18–FY22 (Report No. 115135-ET), under the “Promoting Structural and Economic Transformation through Increased Productivity” pillar through increased productivity, revenue generation, export promotion, import substitution and employment creation effects. In addition, it strongly contributes to the “Building Resilience and Inclusiveness” pillar. The Program will directly address the World Bank Group’s twin goals of alleviating poverty and boosting shared prosperity, and it will contribute to several CPF results framework targets, including: enhanced resilience and inclusiveness, increased agricultural yields, job creation, natural resource management, and climate Co-Benefits. The Program is aligned with the Agricultural Sector Perspective Plan (2020-2030) and the Revised Agricultural and Rural Development Policy of the GoE. The National Adaptation Plan and Climate Resilient Green Economy strategy strongly emphasize that climate-smart agriculture is an essential strategy for meeting climate change mitigation and adaptation goals, which this Program is fully aligned with. This Program will contribute to the goals of the World Bank’s Africa Climate Business Plan, Ethiopia’s Nationally Determined Contribution, and Ethiopia’s Climate Resilient Green Economy strategy. The financing aligns with Ethiopia’s commitment to the Comprehensive Africa Agriculture Development Programme (CAADP), and with the commitment of The Africa Food Security Leadership Dialogue (AFSLD) under Climate Change in Africa to invest in science and promote climate smart agriculture research.

### **C. Proposed Development Objective(s)**

13. The program development objective (PDO) is to increase the competitiveness of strategic agricultural value chains and strengthen livelihood resilience of program beneficiaries.

#### Key Results (From PCN)

14. The IADP is intended to help the GoE implement new directions on agricultural development as expressed in the revised Agriculture and Rural Development Policy. The proposed Program will integrate the strengthening of key agricultural value chains with environmentally sustainable approaches and the promotion of resilient rural livelihoods<sup>2</sup> across diverse population groups focusing on both commercial farmers and agricultural service providers as well as more vulnerable groups including women, youth and low-income households and subsistence farmers.

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<sup>2</sup> As per the aspirations of the revised Agriculture and Rural Development Policy, this would be manifested by improved nutrition status and food security as well as increased incomes and employment of rural households.



15. The Program would thus have a dual objective (a) promotion of competitive value chains of strategic agricultural products; and (b) improving resilience of rural livelihoods along these value chains. This will be achieved through: (i) Increased efficiency in production of strategic products; (ii) Increased market (commercial) orientation of targeted smallholder farmers; (iii) Increased dietary diversity among targeted smallholder farming households; (iv) Reduced exposure to shocks and protection of productive assets during emergencies; and (v): Increased employment opportunities and income earnings along selected value chains.

#### D. Concept Description

16. **The overall architecture of this program is guided by two key features: i) flexibility and ii) regional ownership.** The program offers a menu of options (detailed below in Components 1-3) which various regions and woredas are free to choose from, within a budgetary envelope, based on their specific context, local demand, prioritization and availability of existing programs. This flexibility is much needed to meet heterogenous needs of a diverse rural population. This prioritization exercise will allow each participation region to prepare their regional investment plan aligning with the overall program. The Ministry of Agriculture has developed a formula for ensuring regional equity in resource allocation during AGP which determines the percentage share of each targeted region based on its population. The same approach will be used for regional resource allocation under IADP.

17. The IADP includes 4 components with interventions that will lead to the above results. The components are as follows: 1. Transforming agricultural services technology and research systems; 2. Resilient rural infrastructure development; 3 Market and enterprise development; and 4. Enabling environment for agriculture and project implementation.

18. **Component 1: Transforming Agricultural Services, Technology, and Research Systems:** Activities under this component promote the adoption of improved agricultural practices, key to the competitiveness and resilience of supply chains through farmer-led actions. The component will focus on the entire ecosystem of agricultural services, technology, and research to enable the adoption of improved and sustainable agricultural practices on farm and across the supply chain. It would strengthen the public and private delivery of extension services, build a new generation of extension agency by overhauling the Agricultural Technical Vocational Education and Training (ATVET) system, support plant protection and animal health, strengthen regulatory services and support the commercialization of agricultural research systems.

19. **Component 2: Resilient Rural Infrastructure Development:** Rural populations in Ethiopia are quite vulnerable to climatic risk as well as market risks. To address that vulnerability and build resilience, the resilient rural infrastructure development component will support the development of irrigation and water harvesting infrastructure, market infrastructure development, invest in last mile physical connectivity through bridges and connecting roads for irrigated command areas, support supply chain infrastructure, and finance institutional and governance mechanisms for management of rural infrastructure.

20. **Component 3: Market and Enterprise Development:** A core objective of the IADP is to improve the competitiveness of strategic agricultural value chains in Ethiopia. Components 1 and 2 invest in improved efficiency of production—increasing productivity and reducing costs/losses, while this component builds well-functioning agricultural markets (input, output, financial) and increases the engagement of farmers





with such markets. It will support expansion of private sector participation in the agri-food system, promote rural entrepreneurship (and thus create better rural non-farm job opportunities), support innovation, and help link farmers with markets.

21. **Component 4: Enabling Environment for Agriculture and Program Implementation** Given that the IADP is intended as a key financing and implementation vehicle for the Government’s new Agriculture and Rural Development Policy, this component provides support to the implementation and monitoring of the Policy. It will support program management and ensure that the Program’s performance and impact are carefully tracked for informed decision for better program management and result. The component will also host the Program’s contingency emergency response resources to accommodate unforeseen eligible emergencies.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

22. IADP will finance small-scale irrigation schemes, construction of storage facilities and adoption of innovative agricultural and livestock productivity-enhancing technologies. There are various environment, health and safety risks and impacts that may result from the project activities which include: i) inappropriate use and disposal of agrochemicals including pesticides as well as agricultural research laboratory chemicals; ii) health and safety risks and impacts during construction works and research lab activities; iii) inappropriate use of water resources through over-use and agrochemical contamination which could affect water quantity and quality in neighboring communities and downstream; iv) physical and chemical degradation of soils may result from unsuitable management techniques, v) Agricultural activities can have a direct and indirect impact on biodiversity and ecosystems. Key direct impacts relate to water usage, pollution and introduction of invasive species. Indirect impacts may result from induced changes to access for traditional land uses; and vi) though site specific and small in scale in the context of this project, construction of small scale infrastructure such as storage facilities and small scale irrigation schemes can contribute to environmental impacts and risks such as air pollution, waste pollution, noise pollution, and water pollution. Agricultural activities produce GHG emissions including methane, nitrous oxide, and carbon dioxide from different stages in the production cycle. However, the activities to be financed by this project are community driven development (CDD) type activities and hence no significant emission is expected.



The social risk of the project is also considered substantial; mainly due to the scope of the proposed operations and project supported activities that could result in land acquisition (for farming and the construction of small-scale agricultural infrastructure), which may trigger involuntary resettlement (physical and economic displacement or restriction of access to resources, or loss of livelihoods) of local populations. The IADP sub-project activities, which may be implemented in the highland areas where the Sub-Saharan African Historically Underserved Traditional Local Communities (SSAHUTLC) present or have collective attachments, would potentially cause impacts to disproportionately affect the disadvantaged or vulnerable groups. Other potential social risks could be related to discrimination and social exclusion, security-concerns for agricultural extension workers and beneficiaries, insufficient community and other stakeholder engagement, elite capture, and social tensions/conflicts, labor influx and related risks including risks on community health and safety (CHS) and gender-based violence (GBV) or Sexual Exploitation and Abuse and Sexual Harassment (SEA-SH), operational concerns and weak implementation capacity especially at grassroots level. To ensure compliance and manage social risks, a capacity assessment will be undertaken, and mitigation measures will be put in place by the implementing agency. World Bank environmental and social specialists will provide implementation support while the client is expected to organize relevant capacity-building trainings to the project's environmental and social staff.

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**APPROVAL**

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