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Report No: PAD1052

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 248.3 MILLION
(US\$350 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

SECOND AGRICULTURAL GROWTH PROJECT

March 5, 2015

Agriculture Global Practice
Eastern Africa 3
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2015)

Currency Unit = Ethiopian Birr (ETB)

Ethiopia
Second Agricultural Growth Project

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Ethiopia

Second Agricultural Growth Project (P148591)

PROJECT APPRAISAL DOCUMENT

AFRICA

Report No.: PAD1052

Basic Information		
Project ID P148591	EA Category B - Partial Assessment	Team Leader(s) Andrew D. Goodland

Financing Source	Amount
BORROWER/RECIPIENT	15.50
International Development Association (IDA)	350.00
Total	365.50

Major theme	Theme	%
Rural development	Rural services and infrastructure	50
Environment and natural resources management	Water resource management	20

respects?	
Does the project require any waivers of Bank policies?	Yes [] No [X]
Have these been approved by Bank management?	Yes [] No []
Is approval for any policy waiver sought from the Board?	Yes

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		Gumuz Region			
Ethiopia	Dire Dawa		X		
Ethiopia					

I. STRATEGIC CONTEXT

A. Country Context

1. 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 km². Its bio-physical environment includes a variety of ecosystems, with significant differences in climate, soil properties, vegetation types, agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities and peoples, with an estimated total population of 87.95 million¹. Only 17 percent of the population lives in urban centers, the great majority of them in Addis Ababa. At a current annual

helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share o

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

co

11. 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, 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. 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.

12. To enhance agricultural productivity, availability of improved technologies and information is critical. Currently, agricultural research is undertaken by the national agricultural research system mainly comprising of the Ethiopian Institute of Agricultural Research (EIAR) and Regional Agricultural Research Institutes (RARIs). Limited availability of agricultural technologies, inadequate capacity in multiplying source technologies and limited on-farm pre-extension demonstration of technologies are key problems hindering the availability of technologies to small scale farmers. It is thus imperative to accelerate the release of technologies (crop, livestock, NRM, agricultural mechanization etc.), adopt technologies from elsewhere (within or outside the country), demonstrate available technologies released by the research system, and develop demand-driven

hectares (ha)⁵, which is sixteen percent of total cultivated land. Beyond the next five years, GoE plans

nutrient-rich foods, for example, through supporting household and small scale irrigation which enables production of horticulture crops, purposeful actions need to be taken to develop, promote and create awareness of nutrition sensitive agricultural technologies in production, post-harvest preservation and food preparation. The project would support this through public agricultural services including research, extension and animal health and production.

23. GoE and the Bank regard climate change and variability as an important challenge for Ethiopia, and the country has significant mitigation potential. Under the Climate Resilient Green Economy (CRGE) Strategy, Ethiopia aims for a carbon neutral growth trajectory. The agriculture sector will play an important role in the achievement of this goal. AGP2 would contribute to this by mainstreaming Climate Smart Agriculture (CSA) in all components.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objectives (PDO)

24. The Project Development Objective (PDO) is to increase agricultural productivity and commercialization of smallholder farmers targeted by the project.

25. Agricultural productivity is defined as yields for selected key crops and animal products. Commercialization is defined in terms of proportion of marketed production of selected key crops and animal products by smallholder farmers.

26. The project would also contribute to the higher level objectives of poverty reduction, improved nutritional outcomes by diversifying and improving dietary consumption and climate change mitigation and adaptation through supported CSA initiatives.

B. ~~Project~~ Beneficiaries

27. The primary target of the project is smallholder farmers, who live in areas of Ethiopia with the highest potential for agricultural growth. Smallholder farmers are defined by the Central Statistics Agency as

29. The target number of direct project beneficiaries is 1.6 million. These will be: farmers hosting on-farm demonstrations, farmers in Common Interest Groups (CIGs) and primary cooperatives supported by the project, farmers benefiting from SSI and HHI including those in Irrigation Water User Associations (IWUAs), and farmers in Farmer Research Extension Groups (FREGs). In addition, the project will reach a significant number of indirect beneficiaries, including household members and farmers benefitting from improved access and quality of public agricultural services (including agricultural extension and animal health services), farmers adopting new technologies as a result of the project, and farmers benefiting from improved input and output markets. The project will also specifically target women farmers with tailor made innovations, activities and technical assistance (TA). The target proportion of female direct beneficiaries (both female heads of

33. **Component 3: Small Scale Irrigation (US\$218.6 million, of which US\$158.36 million IDA).** To increase the access to and efficient utilization of irrigation water by smallholder

Evaluation (US\$62.8 million, of which US\$28 million IDA). To ensure project implementation, effective monitoring and evaluation (M&E) of results and a consistent and effective approach to capacity development, the project would support:

- (a) Project management and coordination, including (i) financing the staffing of federal, regional and woreda coordination units (CUs) and Steering Committees (SCs); (ii) procurement, Financial Management (FM), safeguard functions and communication; (iii) capacity development for core functions and for cross-cutting i

D.

status of members, sound business plans, strong market linkages and, strong management as well as receive consistent and continual TA.

46. Cross-cutting issues require specific interventions and clear targets to gauge progress as general mainstreaming may result in the neglect of these issues. Cross cutting issues of women and youth development, nutrition, CSA and capacity development need close attention, resource allocation (including staffing) and rigorous monitoring. Mainstreaming needs to be accompanied with specific activities such as women and youth CIGs, deliberate selection of nutrition, gender and climate sensitive technologies as well as capacity development and awareness around these issues.

IV. IMPLEMENTATION

A.

51. The project is a part of a broader program led by MoA to address agricultural growth in Ethiopia. The project will ther1 14Gth0l23614G-5()0 0 1 185.3 681.58 Tm1 1 185.3 681.58 in

55. **Safeguards monitoring.** Throughout implementation, the project will support safeguard monitoring to ensure that the project is following the prepared and disclosed safeguard instruments. Safeguard monitoring will include environmental and social performance reviews to assess compliance with safeguard instruments, determine lessons learnt and provide guidance for improving future performance. Reporting formats will also include indicators on safeguards.

56. **Internal learning and Participatory Monitoring and Evaluation (M&E).** AGP2 will promote internal the

4. Technical design of project or program	Low
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Substantial
9. Other	Low

sizeable financing gap. Although shortfalls in DP co-financing are not expected, if

consulting firms. Further, the IDA financing is leveraging additional DP financing for the project, increasing its overall scale and impact.

B.

69. AGP2 will build on and strengthen FM arrangements under AGP1 which require the timely submission of financial reports of good quality, a participatory approach in budget preparation, unqualified audit report opinions and smooth fund flow arrangements, though in practice have had some weaknesses. AGP2 Management (PFM) system. Several aspects of the PFM system function well, such as the budget process, budget classification system, and compliance with financial regulations. AGP2 will also benefit from the

Management Plan (Annex 6).

80. **Grievance Handling Mechanisms (GRM):** In the case of grievances arising in the course of project implementation, traditional and quasi-formal dispute settlement arrangements would be invoked to deal with the issues. Under these arrangements, in the first instance, aggrieved parties would be encouraged to bring their complaints to the attention of local elders, who would consult with the parties involved to resolve the dispute in an amicable fashion. Complainants not satisfied with the decision of village leaders are advised to resort to quasi-formal structures of kebele judicial tribunals, whose verdi

Results Framework and Monitoring

Country: Ethiopia

Project Name: Second Agricultural Growth Project (P148591)

Results Framework

Project Development Objectives

PDO Statement

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

These results are at

Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	YR 5 End Target
1. Percentage increase in yield for selected crops in targeted households benefiting directly from the project (Percentage)	Cereals/pulses (quintals per ha):					
	- THH: 15.3			11.1%		
	- FHH: 13.7			11.9%		
		--	--			
	Vegetables/Fruits: (quintals per ha)					
	-THH: 67.42			14.3%		
	-FHH: 55.79					

selected crops
(Percentage)

- THH: 17.08%
- FHH: 15.29%

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Vegetables/Fruits:
-THH: 37.19%
-FHH: 30.77%

Collaborative research sub-projects - completed (number)
(Number - Sub-Type: Breakdown) - (Core)

(Percentage)	Farmers groups: N/A	--	9%	12%	13%	15%
	Cooperatives: N/A		9%	12%	13%	15%

<p>- MHH: - FHH:</p> <p>Vegetables/Fruits: -MHH -FHH</p>	<p>will be developed based on the selected crops ((i) cereals and pulses and (ii) vegetables/fruits). The current list of crops will be further defined.</p>			
<p>Percentage increase in yield for selected animal products in targeted households benefiting directly from the project</p> <p>-MHH -FHH</p>	<p>Assess agricultural productivity by a proxy with yield for selected key livestock products in targeted households (MHH and FHH). The proposed selected key livestock products at this stage are the following: poultry (meat), honey, cattle milk, cattle and shoats (meat). An index will be developed based on the selected livestock products and the current list of products will be further defined.</p>	<p>Baseline, mid-term and end of project</p>	<p>Beneficiaries survey/evaluation</p>	<p>Consulting firm/university under responsibility and supervision of</p>

Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., farmers benefiting from specific trainings at FTCs, farmers in CIGs, farmers in IWUAs, farmers in FREGs, farmers being linked to the market by the project, farmers using animal health services, farmers members of cooperatives supported by the project, etc.).	Annually, starting year 2.	Baseline, mid-term and end of project
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Percentage increase in crop diversity (no. of households cultivating 3 or more crops) in targeted households ' 'ing directly from the
--

		Officer and TC
Baseline, MTR and end of project	Household survey/ evaluation	Consulting firm/university under responsibility and supervision of CU M&E Officer

diverse nutrient dense food; and (ii) improving post-harvest handling, preservation and processing to improve availability of good nutritional quality and safe food. CSA

Collaborative research sub-
projects - under
implementation
(Disaggregated by total
FREGs and women
FREGs)

irrigation and drainage services - Improved (ha) (disaggregated by SSI and HHI)		starting year 2		RCUs and BoW)
Percentage increase in volume of seeds supplied through diversified channels (disaggregated per supplier)	This indicator measure the percentage increase in volume of seeds produced per VCs per type of channels (private agents; farmers groups; and cooperatives). Seeds are defined as grain crops.	Annually, starting year 2	Progress report	USAID and CU M&E Officer
Number of commercial partnerships or market contracts signed between producer groups or cooperatives (supported by the project) and domestic/international agribusiness actors (processors, wholesalers, retailers, exporters, etc.) for selected VCs	This indicator assesses the effectiveness of component 4 at improving market access and			

meets World Bank quality and timely delivery requirements	system is achieving its basic function of providing quality and timely data. Quality requirements refer to the agreed format for reporting (data, analysis, recommendations, etc.) and the required data (such as results framework and other critical indicators/data agreed upon).		reports/Review	/World Bank
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program will be prepared and financed by the project. Short-term training of farmers, DAs and SMSs will focus on practical skills in subject such as participatory extension

d. **Human resources and physical capacity development.** The capacity development will have a special focus on training of trainers on animal production and product

e.

iv) **Capacity Development for natural resource management and soil fertility management.** The activity will focus on contributing to bridge physical and skill gaps in natural resource and soil fertility management. On the basis of the recommendation of a , the project will support capacity building interventions to local communities in natural resources management through different combinations of the following activities: (a) awareness creation and training; (b) provision of field and office equipment and critical supplies; and (c) provision of extension services such as demonstrations, field days, - .

8. **Agricultural Mechanization Services.** The aim of the agricultural mechanization intervention is to develop and promote appropriate tools and machinery for pre and post-harvest agricultural production systems that can result in labor efficiency and effectiveness which would lead to sustained adoption of the yield-increasing technologies, reduce post-harvest losses and create value addition. Specific attention will be given to the cross-cutting issues, i.e., nutrition, gender and youth, and CSA including

Sub-Component 1.2: Scaling up of best practices

9. The objective of this sub-component is to ensure the identification and wider use of best practices and proven technologies to enhance and intensify agricultural production. In consultation with key stakeholders, the extension service will identify improved technologies and management practices in a range of thematic areas related to production, post-harvest handling, value addition and marketing. Best practices are defined in terms of both proven technologies to increase productivity and value added, and proven gender - nutrition - and climate change-sensitive/friendly technologies. The project will support the screening of identified technologies and the preparation of clear and detailed implementation guidelines for each best practice. The screening process will include consideration of cross cutting issues of nutrition, gender impact and CSA. The activities will be implemented in close collaboration and with the support of the aligned Netherlands supported CASCAPE project which will provide support such as provision of evidence based to validate the technologies. Identified and validated best practices would be

COMPONENT 2: AGRICULTURAL RESEARCH.

10. The objective of the component is to increase the supply of demand-

20.

27. **Establishment of New⁷ Small Scale Irrigation Systems.** The objective is to expand area of irrigated agriculture for smallholder farmers by establishing new SSI systems (with command area greater than or equal to 20 ha) to enhance smallholder production and productivity. Under

procurement and property management/warehousing, legal matters (dispute management, etc), personnel matters and record keeping/documentation.

31. **Introduction of Improved Irrigation Agriculture Management.** The main objective of this activity will be to introduce new on-farm irrigation water management and agronomic practices in order to

i)

Sub-component 4.

to contracts, delivery of quality product and market information issues, etc.; (vi) follow up on decision of the MSP; and (vii) technical and managerial assistance to the committee.

ii) Technical support to strengthen competitive agribusiness actors. The following interventions to strengthen the agribusiness actors could be considered:

a) **Facilitate linkages among agribusiness associations, farmers, cooperatives and small business groups.** This will be achieved by supporting agribusiness associations through the provision of technical support with concrete deliverables. Equal opportunities will be created for men and women producers, processors, traders and exporters in agribusiness with a special emphasis on women entrepreneurs through capacity building efforts focusing on developing viable business ideas and plans as well as linkages to financial institutions.

44. **Construction and management of warehouses as well as storage, grading and packaging facilities.** The activity would address the problems of improper post-harvest handling and storage that will lead to increase in the nutritive value of produce, reduce post-harvest losses, increase storage capacity, and create reliable market linkages. Moreover, the interventions will enable the cooperatives to increase the volume of grains purchased from smallholder farmers and store; rather than sell immediately after harvest as well as implement grading and packaging for better price.

45. Prior to proceeding with the investments, the project will finance the preparation of detailed analytical work in order to assess the feasibility of the public intervention. This work would include an evidence-based justification for public investment (e.g., market failure), define clear modalities for support under the project which would not crowd out private investment; and describe a clearly stated exit strategy. It would evaluate the pilot supported under AGP1 to draw lessons. In addition, proposals would include a detailed plan for how facilities and equipment would be operated, managed and maintained; and in relation to this, a clear staffing plan needs to be prepared, incl if necessary a plan for human capacity development.

46. It is anticipated that the project would support the construction of up to 100 primary cooperatives out of 4,264 and up to 35 cooperative unions out of 185. In addition to the construction, the project will finance critical supplies of packaging materials for demonstration of selected commodities to improve the quality and prices as well as finance the preparation of guidelines to promote effective use and management of warehouses. Infrastructures will be financed by the project on a cost sharing basis. The cost sharing will be 30 percent for cooperative unions and 10

- iii) **Providing technical support to design, test and implementation of market information system.** This will serve all market actors particularly smallholder farmer so as to improve agricultural market information, analyses and forecasts at national and international levels.

COMPONENT 5: PROJECT MANAGEMENT, MONITORING, EVALUATION AND LEARNING.

49. The objective of this component is to ensure project implementation, effective M&E of results as well as a consistent and effective approach to capacity development.

Sub-component 5.1: Project management and institutional arrangements

50. The purpose of this sub-component is to ensure well-functioning institutional arrangements and mechanisms to ensure the effective coordination and management of the project. This sub-component will support and enhance the capacity of relevant institutions to deliver the project. It will support institutional arrangements and implementation mechanisms

qualitative studies of research processes (including process, product and potential impact); (iv) qualitative studies of the FREGs; (v) qualitative evaluation of efficiency use of water combined with technical audit and cost benefit analyses of infrastructures; and (vi) qualitative evaluation of a sample of trainings. The assessments will be agreed at the Federal Steering Committee (FSC) at the outset of each fiscal year.

53. **Gender impact evaluation.** A rigorous impact evaluation of gender innovations under AGP2 and other complementary initiatives for scale up in the latter years of the project will be carried out. The impact evaluation will help determine whether pre-identified constraints limiting the project beneficiaries' and in particular women's ability to realize their agricultural and commercial potential were effectively improved by the project's activities/innovations. Possible innovations for support include: (i) testing new and innovative types of extension service delivery: training tailored to the needs and requirements of female farmers (in terms of timing and location of training sessions as well as the content of the training) offered at FTCs versus a more decentralized training mode during which trainings are provided by female model farmers to women's groups; (ii) assessing the effectiveness of technologies specifically designed to enhance and benefit tasks frequently performed by women in the agricultural VC (such as food processing and weeding); and (iii) evaluating the impacts of introducing labor saving, mechanized technologies to female farmers (both spouses and head of households). The final selection, definition and design of the impact evaluation studies will be determined during the initial phase of project implementation. The research and survey design, and the organization and management of the impact evaluations will be supported by the World Bank.

54. **Monitoring of inputs, outputs, selected outcomes and processes.** The project will still focus on keeping the monitoring system simple and interactive allowing regular reporting and learning at all levels. g at 9TBThnica

kebele managers and supported by trained community facilitators. It will also include cross

deliver and follow up on capacity development interventions in their areas of specialization, as well as ensuring the systems and process are in place to enable this. Some specialized support in

Annex 3: Implementation Arrangement

ETHIOPIA: SECOND AGRICULTURAL GROWTH PROJECT

Overall implementation and institutional arrangements.

1. As in AGP1, the implementation of the AGP2 will rely on the existing government structures, with the exception of parallel financing by the USAID (US\$203.7 million) and DFATD (for capacity building) that will be channeled through specific implementation arrangements.

2. It will continue to operate in the 96 woredas of the four national regional states targeted in AGP1 (Amhara, Oromia, SNNPR and Tigray) and will expand to 61 new woredas of similar agro-ecological conditions to reach a total number of 157 woredas in the four AGP1 regions and three new national regional states, i.e., Benishangul-Gumuz, Gambella and Harari and Dire Dawa city administration. In the new national regional states and woredas, similar structures to AGP1 will be established with some modifications to take into account the smaller number of woredas.

3. The project will be implemented within the existing government structures at different administrative levels: federal, regional, zonal, woreda and kebele. MoA will be the lead executing agency with the overall responsibility for coordinating all aspects of the project. The main responsibilities of MoA will include: project oversight, coordination, planning, technical support, financial management, procurement support and M&E. MoA will be accountable for

project Task Team during project implementation. To fulfill its responsibilities, MoA will use the institutional mechanisms established for the implementation of AGP1: SCs, TCs, and CUs. The composition of these committees will be

implementation performance report prepared by the CUs, and overseeing the implementation of corrective actions;

communication; and (vii) the overall knowledge management, and the strategic staff capacity building and mobilization.

12. At federal, regional and woreda levels, the existing AGP1 and new AGP2 CUs will comprise of proje with equipment, vehicles, and trainings to address the expanded project scope and increased workload. The composition and specific roles of the various FCUs, RCUs and

zonal and woreda levels, the TCs will be established with high level experts from the relevant IAs.

17. **Planning and Implementation.** The planning of the projec

region will be consolidated with the regional strategic investments and development activities, and the RCU regional AWP&Bs will be transmitted to the FCU after approval by the RSC.

22. To synchronize the project with the Ethiopian fiscal year¹¹, the AWP&B will have to be submitted for review and approval by the FSC no later than mid May.

23. For the subsequent years, a consultative planning process will be conducted and centered at woreda level after conducting consultations with the WDCs and leaders of the communities at kebele and sub-kebele levels. These consultations will be appropriate occasions for the project and the IAs to report to the communities on their activities, review the progress done and suggest the priorities for the AWP&B for the coming year. It will also serve as occasions to collect lessons learned as well as discuss failures, successes and best practices. As in the first year, the planning process will involve WDC, IAs, woreda TC and WCU to implement a similar screening process at woreda level. The same process as that of the first year for consolidation and approval by SCs will be followed.

24. The planning process at kebele and woreda levels for the first year of project will also include RARIs for the national regional states under the AGP2. The identification of research needs will happen with the community through the CLPP. Research needs identified at kebele level will then be screened and consolidated at woreda and regional level under the overall responsibility of the EIAR. The screening mechanisms and eligibility / priority criteria will be detailed in the PIM. Among others, the criteria will consider commodities targeted in the VC (Component 4) and irrigated agriculture. A high consideration will also be given to research activities closely related to the cross-cuttings issues.

25. The research needs identified at woreda level will be consolidated by the relevant RARIs and a 4 year regional plan for the research activities will be prepared under the overall coordination of the RAR-CUs. The 4 year regional plan for the research activities will then be consolidated by the EIAR in a 4 year national plan and submitted to the FSC by the FCU for review and approval. Once approved, each RARI will prepare its AWP&Bs on the basis of the approved 4 year national research plan and send it for review to the RAR-CUs. The various AWP&Bs from the concerned national regional states will then be reviewed and consolidated by the FAR-CU and submitted to the FCU to be included in the project AWP&B.

28. The federal IAs will provide guidance and support to regions, spearhead most institutional capacity building activities and undertake monitoring, evaluation and communication activities. The AGP2 IAs will include various Directorates of MoA¹², the National Soil Laboratory, the Central Statistics Agency, the National Institute for the Control and Eradication of Tsetse and Trypanosomosis, the Veterinary Drug and Feed Administration & Control Authority, the National Animal Health Diagnostic and Investigation Centre, and the NAIC.

29. Whenever possible and appropriate, a Memorandum of Understanding (MoU) defining activities, responsibilities, implementation arrangements and expected results will be signed between the relevant CUs and IAs that will be responsible to implement specific activities under the overall oversight of the CUs.

30. At regional and woreda levels the Bureaus/Offices of Agriculture will assume the primary responsibility for the execution of the p4()Txe 85 49(most)-4()] TJETitys.



Coordination

Financial Management, Disbursements and Procurement

1. A FM

significant issues. The government needs to make available to the public information on the incomes and expenditures of extra-budgetary operations.

5. Weaknesses were noted in internal audit which necessitate increased focus on systems audit and increasing management response to audit findings. Further strengthening of the internal audit function is a key challenge. The full roll-out of IBEX has helped to strengthen the quality of in-year budget execution reports by including information on revenues and expenditures, financial assets and liabilities, but excluding information on donor-financed projects and programs.

6. **Lessons learned.** Given that AGP2 is a follow up from AGP1, the assessment has tried to reflect on the lessons learned which could be reflected in the design process of AGP2. It has been noted that most of the FM functions operated well in AGP1, including the timely submission of financial reports with good quality, participatory approach of budget preparation, unqualified audit report opinion and smooth fund flow arrangements. However, challenges were

13. **Accounting system.** MoA, BoAs and woredas use IBEX for recording and reporting on government fund whereas EIAR uses the in house developed FM system. For AGP1, all IAs record project transactions and produce reports.

23. Despite the challenges, the internal audit directorate of MoA and BoAs have reviewed the accounts of AGP1 by incorporating the same into their annual work plan and program. However, the reviews were conducted on an *ad hoc* basis. Given the significant resources that the project will have, based on the risk assessments to be conducted by the internal audit units, the internal audit department of MoA, EIAR, RARIs and BoAs will include in their work plans activities of the AGP2 to ensure that internal control aspects of the project are strengthened. Since there are only five auditors within the internal audit department, it is expected that coverage of the project activities will initially be small; with subsequent expansion when more staff are hired and their capacities built. It is expected that MoA will increase the staff numbers of internal audit department within one year of the project s effectiveness. Reports of project activities produced by internal audit will be shared with senior officials of the ministry for their action.

Financial Management (FM) Action Plan

36. Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated as substantial. However, the following actions are agreed to be performed in view of mitigating the identified risks in the project.

FM Action Plan

	Action	Due by	Responsible
1	Revising the FM manual in terms of budgeting (budget codes, treatment of roll over budgets, budget calendars), chart of account (revising the codes to better align to the governed accounts, proper allocation of codes for components and expenditure categories), accounting (recording of fund transfers between IAs, recording of community contribution, transaction coding and reporting aspects) and also the introduction of EIAR and RARIs as IAs of the program and the changes required to reflect that in the manual.	Before effectiveness, as part of the PIM	MoA
2	Internal audit: Increased engagement of internal auditors at all levels to identify control weaknesses early. In this respect, workshops or capacity building activities/training will be conducted for auditors at federal and regional level.	Ongoing/ training will be done at least annually together with AGP2 accountants	Federal and regional AGP2 CUs
3	Recruit the following staff i) FMSs at the 2 new national regional states (Gambella and Benishangul-Gumuz), and one FMS and one accountant at EIAR ii) FMSs for the new woredas (if not overlapping with SLMP)	Within two months after project effectiveness (until that time focal person would be assigned from the respective offices)	Federal and regional AGP2 CUs
4	Adopt a standalone IBEX system for the project i) T		

Action

Due by

Funds Flow and Disbursement Arrangements

Designated Account and Disbursement Method

39. Funds flow into the project and within the project among various institutions is depicted in the Figure below. IDA funds and other DPs funds will be deposited into a separate Designated Account to be opened at the National Bank of Ethiopia (NBE). The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved AWP&B. Funds from the various separate accounts will be further transferred in to pooled ETB account to be held by MoA. From the pooled local-currency account, MoA will transfer funds to separate local-currency accounts to be opened by EIAR and the regions. One cash forecast for the program will be used which will be consolidated at MoA after getting the relevant inputs from EIAR and the other IAs.

40. Each of the BoAs and existing woreda finance offices will open separate bank accounts for the program to ensure that expenditures of the new phase are reported in their appropriate period. BoAs will transfer funds to woredas and regional IAs. All the new woredas under the program, if there are any, will riate-

44.

2011 and revised in July 2014; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 and revised in July 2014 and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti- in January 2011 and the provisions stipulated in the Financing Agreement.

opportunity to register with the reasonable cooperation of the recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette or on a widely used website or electronic portal with free national and international access;

- v) Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents;
- vi) All bidding for goods shall be carried out through a one-envelope procedure;
- vii) Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than the price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation;
- viii) The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled; a failure of bidding declared concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence; and
- ix) In accordance with para.1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: i) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and documents relating to the bid submission and performance of the contract, as well as to have them audited by auditors appointed by the Association; and ii) Acts intended to materially impede inspection rights constitutes an obstructive practice as defined in paragraph 1.16 a (v) of the Procurement Guidelines.

A. Applicable Procurement Methods

53. **Scope of Procurement.** The implementation of the AGP2 project entails procurement of goods, works and services of various types but it generally comprises: i) Goods including vehicles and motor cycles, office furniture and equipment, IT equipment (i.e., computers, computer software, servers, and scanners), improved breeds, hormones, and other agricultural inputs; ii) Consulting Services (TA, studies, project audits including financial and procurement, baseline surveys and impact assessment, impact evaluations, etc.); and iii) Training and Workshops. At sub-national level, the project makes provisions for the upgrading and construction of SSI systems, pump stations, water harvesting schemes, market centers, stores, access roads and bridges, etc.

54. **Procurement of Works and Goods.** The procurement of works and goods will be done using the Bank for all ICB contracts and national SBD agreed with or satisfactory to the Bank for NCB contracts. Contract packages for works estimated to cost US\$7 million equivalent per contract and above, and contract packages for goods estimated to cost US\$1 million equivalent per contract and above will be procured through ICB procedures. Works contracts estimated to cost less than US\$7 million equivalent per contract and goods contracts estimated to

cost less than US\$1 million equivalent per contract would be procured through NCB procedures. Small works contracts estimated to cost less than US\$200,000 equivalent per contract and goods contracts estimated to cost less than US\$100,000 equivalent per contract may be procured through Shopping procedures by comparing quotations received from at least three (3) reliable contractors or suppliers. In such cases, request for quotations shall be made in writing and shall indicate the description, scope of the works, the time required for completion of the works and the payment terms. All quotations received shall be opened at the same time. As a general rule, a qualified supplier who offers goods or materials that meet the specifications at the lowest price shall be recommended for award of the contract. Limited International Bidding for goods may exceptionally be used when there are only a limited number of known suppliers worldwide.

55. Direct contracting and single source selection can be used when it is considered beneficial to the borrower. Under AGP2, there might be circumstances which justify direct contracting by IAs, where there is only a single supplier, labor contractor or service provider for the provision of small value goods, works and services. For such contracts which fall below an estimated cost of US\$5,000, the IAs can undertake direct contracting but have to provide detailed justifications underlying the selection of such a procurement method and have to obtain approval from the head of the IAs as per the procedures provided in the Procurement Directives of the federal government and the respective national regional states. Documentations of the justifications provided and the approval by the head of agencies shall be maintained for review by the Bank staff or consultants during post procurement reviews and independent procurement audits. Direct contracting below US\$5,000 will require internal government review; between US\$5,000 and US\$100,000 will require TTL review; and above US\$100,000 will require full Bank review.

56. **Procurement of Agricultural Inputs.** Market studies carried out as part of the procurement capacity assessment for AGP2 as well as other projects indicate that the market for agricultural inputs in Ethiopia is highly regulated. According to the findings of the assessment, the market outlets for agricultural inputs, which include improved seeds and fertilizers, are It should be acknowledged, however, that attempts are being made to arrange for sales of improved seeds through a competitive process. However, such an attempt is currently at pilot stage in limited Woredas only. Thus in general, in Ethiopia, the procurement of improved seeds and fertilizers through a competitive process is not feasible at the local level, where it is needed under the project. According to the data from AGP1, the total amount expended on these inputs is insignificant and such inputs are required in a decentralized manner for demonstration purposes at FTCs as well as the consolidation of the procurement of these inputs would not be efficient. Hence, the procurement of improved seeds and fertilizers under AGP2 shall be carried out through direct contracting with due diligence with regards to reasonableness of cost, efficiency and quality of goods or through Shopping procedures, whenever possible. Moreover, basic seeds which are of proprietary nature and available only in federal and regional research centres shall be procured on a direct contracting basis from the research centres as per the procedures outlined in Paragraph 3.7 of the Guidelines.

57. **Procurement of mass media broadcasting.** IAs of AGP2 may require to broadcast radio and television programs to disseminate information on the objectives and achievements of the

project, use of new technologies, etc. In Ethiopia, radio and television programs with a wider coverage are limited to Ethiopian Broadcasting Corporation, some regional radio and television stations which are state owned enterprises. A study of t1.695.38 Tmml6-129(stat)i9(wide)4(r outlTJ-137(rpr)

expenditures are neither subject to the Procurement and Consultant Guidelines nor prior or post reviews. Operating expenditures are verified by TTLs and FMSs.

63. **Record Keeping.** The FCU of the AGP2 as well as all IAs of the project, at regional, woreda and federal level shall be responsible for record keeping and filing of procurement records for easy retrieval of procurement information. Each contract shall have its own file and should contain all documents on the procurement process in accordance with the requirements of the Bank and as described in the national procurement law.

64. **Margin of preference for goods and works.** In accordance with paragraphs 2.55 and 2.56 of the Procurement Guidelines, the borrower may grant a margin of preference of 15 percent in the evaluation of bids under ICB procedures to bids offering certain goods produced in the country of the borrower, when compared to bids offering such goods produced elsewhere. Similarly, the borrower may grant a margin of preference of 7.5 percent in the evaluation of bids under ICB procedures to local contractors when compared to foreign contractors.

65. **Coordination of procurement activities.** The FCU at MoA, which is the focal organization for the implementation of AGP2, shall coordinate all procurement activities of the project and be responsible for communicating with the Bank on requests for prior reviews. Responsibilities of the FCU will also include the following: procuring strategic goods and equipment, consolidating Procurement Plans for all contracts requiring use of NCB and above, placing adverts for ICB contracts on UNDB online, supervising other IAs at sub

procurement staff turnover; and v) the function of the FCU to coordinate procurement activities was weak. Lack of qualified and procurement proficient procurement staff remains a major challenge in all the IAs visited. Most of the procurement staff in all IAs visited was not proficient in the procurement procedures of the Bank and

C. Action Plan to Mitigate Procurement Risks

Summary of Findings and Actions (Risk Mitigation Matrix)

FCU/19.3 341.5 reW*

No	Major findings/issues	Actions proposed	Responsibility	Targeted date
1.	Inadequate procurement capacity in the regional and woreda IAs particularly in the new regions and woredas to be included under AGP2	<ol style="list-style-type: none"> 1. Employment of qualified and procurement proficient staff acceptable to the Association in the regional IAs (additional staff); 2. Maintain procurement capacity at woreda level and commensurate with procurement workload; 3. Provide basic procurement training offered at equal monthly installment in the procurement of goods and equipment, works and consultancy services to procurement staff of federal and regional implementing agencies as appropriate; 4. Staff involved in the implementation of procurement activities such as tender committee members and tender award committee members should be provided procurement clinics on procurement procedures under the Bank financed projects; and 5. Provide procurement staff at the FCU, RCUs and woredas with the necessary facilities to 		

No Major findings/issues

Actions proposed

Responsh*nBT/(c

D. Procurement Oversight and Supervision Plan

70.

and updated annually. Post reviews will be carried out by Bank staff or independent auditors in 20 percent of the Woredas (about 31 Woredas), FCU and all implementing regional bureaus annually covering at least 15 percent of contracts awarded by each entity in a given year. Based on the initial risk rating, which is H , the borrower shall seek Bank prior review for equivalent value of contracts as detailed in the table below:

Procurement Methods and Prior Review Thresholds

Category	Prior Review Threshold (US\$)	ICB Threshold (US\$)	National Shortlist Maximum Value (US\$)
Works			NA
Goods			

G. Works

List of Works Contract Packages to be procured during the initial 18 months of the project

No

73. All consultancy services for the selection and employment of procurement and legal consultants, regardless of the contract amount, shall be subject to Ba Terms of reference for all consultancy services shall be cleared by the Bank. The selection of ICs will normally be subject to post review. Prior review will be done in exceptional cases only, e.g., when hiring consultants for long-term TA or advisory services for the duration of the project and prior review of these contracts will be identified in the Procurement Plan.

77. **Environment.** AGP2 will finance activities such as ground water development, SSI schemes, construction of feeder roads, establishment of product storage facilities and large-scale adoption of innovative agricultural and livestock productivity-enhancing approaches. Likely environmental risks may be associated with pre-construction, construction/rehabilitation and operation of storage facilities, use and disposal of agrochemicals, and inappropriate use of groundwater resources (through over-use, agrochemical seepage, etc.) could result in aquifer depletion and contamination affecting water quantity and quality in neighboring communities and downstream. The government IA, MoA, has formulated an ESMF that describes in broad terms how potential project related environmental risks and impacts associated with all the World Bank safeguard policies would be mitigated and addressed before and during implementation of project activities. In addition, it describes the institutional responsibilities, capacities, financial resources and monitoring needs essential to implement mitigation measures.

78. **Social.**

line with the Bank's safeguard policies, this project has to put in place mitigation mechanisms acceptable to the World Bank to mitigate these impacts. For impact on land use and structure, an RPF, has been prepared, consulted upon and disclosed to address any potential impacts, which is expected to be site specific and minor.

79. ed by the World Bank and reinforced by the constitution of Ethiopia, which indicates that the target population identify themselves as having the characteristics defined under OP4.10. Therefore, SA was conducted to complement the RPF. Specially, the access to and use of common or natural resources need to be safeguarded in a process of "free, prior and informed consultation". Consultations have taken place between all those traditionally inhabiting an area and those external people who made agricultural investments in the area. As was done in AGP1, the project will set up at the kebele level grievance redress mechanism and issues, related to the implementation of sub-projects that affect private and community properties, will be incorporated in participatory sub-project planning guidelines and in screening criteria in the PIM. Substantial numbers of community level sacred and ritual sites of religious and cultural importance (sacred trees, springs, rivers, ritual sites, etc.) have been identified by SA in all target locations, thereby triggering OP4.11 Physical Cultural Resources. Implementation of AGP2's sub-components in the area of small irrigation schemes, water reservoir and dam excavation as well as access roads construction may likely affect physical cultural resources. A set of procedures for ensuring that these resources are considered in the designing process of AGP2 sub-projects is part of the ESMF. Mandatory measures are detailed once a Physical Cultural Resources safeguard is triggered during a sub-project screening process.

Monitoring and Evaluation (M&E)

80. Responsibility for M&E of AGP2 will take place at four levels: federal, regional, woreda, and kebele/sub-kebele. The M&E system will allow the implementation of activities to be reviewed against AWP&Bs and ensure that corrective measures are quickly implemented.

81.

86. **Farmers.** Farmers will actively participate in community learning fora.
87. M&E information flows are depicted in the figure on the next page.

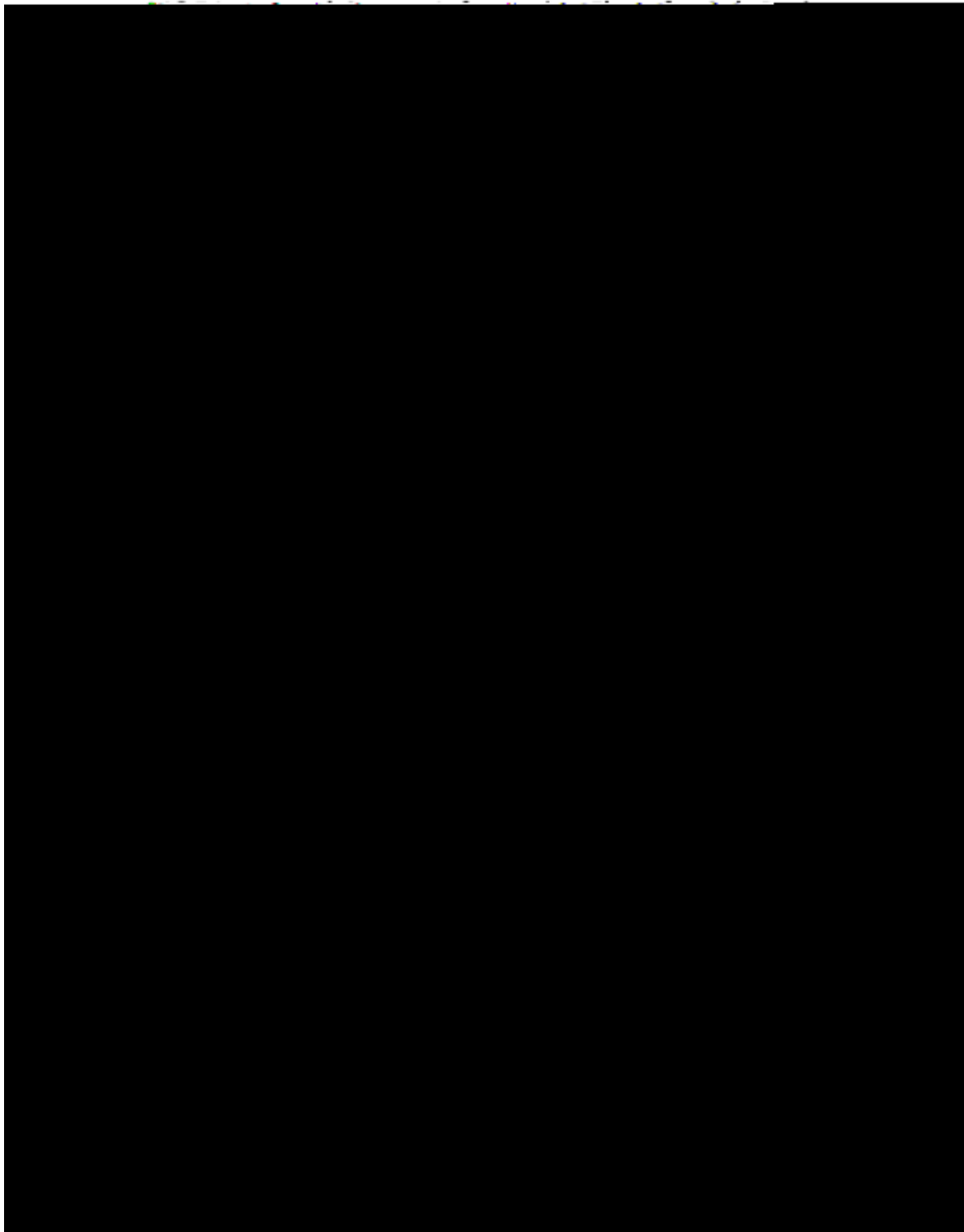
Role of Partners

88. AGP2 is strongly supported by the World Bank in close partnership with a consortium of DPs DFATD, FAO, the Embassy of the Kingdom of the Netherlands, AECID, EC, UNDP, the Italian Development Cooperation, and USAID. In line with the Paris Declaration on Aid Effectiveness, DPs have pooled their financing both cash and in-kind contributions and agreed to provide a unified pool of technical advice and analytical work in support of a single program led by GoE. This engagement model allows for improved harmonization and enables enhanced supervision and monitoring while avoiding excessive transaction costs for the government and DPs. It also strengthens the likelihood that the program is able to achieve impact at scale.

89. To provide adequate implementation support and ongoing supervision, several joint government and development partner TCs and taskforces have already been established in AGP1 to monitor program implementation and provide technical guidance on component specific and cross-cutting issues. These committees and taskforces would continue in the AGP2.

90. The World Bank managed MDTF will continue to channel significant resources for implementation support and enhanced supervision of AGP2. In principle, most of the AGP1 donors have committed to contribute at least the same amount of contributions to AGP2 as committed to AGP1, in addition to additional contributions being committed by new donors such as EC. Annex 5 provides the details of the supervision strategy for the program, which is implemented jointly by the GoE, the World Bank, and other AGP2 DPs.

91. The parallel financing support would continue for the financing of the component 4 on agribusiness and marketing by USAID. In addition, a new parallel financing support would be introduced for CDSF by DFATD.



Annex 4: Systematic Operations Risk - Rating Tool (SORT)

Ethiopia: Second Agricultural Growth Project
Stage: Board

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate

and is designed to operationalize the CAADP Compact signed by the GoE and its DPs. The PIF not only ensures agriculture strategies are financially viable and sustainable, but also ensures that the funding for the sector is predictable and adequate. The project is considered the main investment operation to support the implementation of the PIF. There is a strong sector platform for discussing investment and strategic issues with the GoE, and all contributing DPs to the AGP2 are members of that group. A revision of the PIF is scheduled in 2015 in order to bring it in line with the GTP2

7. **Environment and Social:** The risk has been rated as substantial. The Environmental Category assigned to AGP2 is Category B, predicated on the fact that environmental risks and social impacts may be minimal, manageable, and in most cases, reversible. However, there might be additional social and environmental risks due to the new project activities and the expansion of the project into new national regional states and woredas including Gambella and Benishangul-Gumuz. Under the ongoing project, progress has been observed in terms of screening sub-projects through ESMF, conducting environmental social impact assessments, and developing Environmental and Social Management Plans (ESMPs) as well as in implementing

Annex 5: Implementation Support Plan

ETHIOPIA: SECOND AGRICULTURE GROWTH PROGRAMME

Strategy and Approach for Implementation Support

1. The Implementation Support Plan (ISP) describes how the Bank and other DPs will support the implementation of the risk mitigation measures identified in the risk matrix and provide the technical advice necessary to facilitate in the implementation of project activities in achieving the PDO

fiduciary obligations. The ISP is consistent with the implementation arrangements detailed in Annex 3. Furthermore, it is also consistent with the required and expected procedures and activities designed to mitigate risks as outline in Annex 4.

2. Effective collaboration with the GoE, in particular with MoA, at the federal level as well as at the regional, woredas and kebeles is critical for efficient and effective implementation of the project. Furthermore, consultation and collaboration with other key stakeholders is also important including DPs supporting the AGP2, community organizations, private sector and academic/research institutions. During project preparation, an effective participatory collaboration among all these stakeholders was successfully carried out which enriched the design of the project. The same collaborative approach will be adopted and further strengthened during project implementation.

3. Once co-financing arrangements are confirmed with DPs, it is expected that in addition to providing parallel and pooled co-financing, DPs would also contribute to a Bank-executed MDTF to support enhanced supervision of the project and additional studies and analysis as

Implementation Support Plan

4. The main areas of focus and skills requirements for implementation support to be provided by or through the Bank are as summarized in the following table.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Staffing and building basic capacities Support to finalization of manuals Initiating critical procurements Establishing M&E and reporting systems FM, procurement and safeguards	Agriculture Research and Extension Agribusiness Community Driven Development Procurement Environment Social Development M&E Irrigation	159 staff weeks	Joint supervision and implementation support Through DP supported MDTF, technical experts will be contracted by the Bank to support the GoE
12-60	Agriculture	Agriculture	159 staff	Joint supervision

M&E Expert	16/ year	4 trips/ year	HQ STC with expertise in M&E indicator tracking, refinement and use
Irrigation Specialist	20/ year		Local based staff with expertise in design, implementation and management of irrigation schemes
Environmental			

v) **Unemployed and underemployed rural youths.** These are vulnerable social groups especially where land scarcity and land fragmentation are severe problems, with the consequence of minimal average land holdings.

vi) **Occupational minorities.** These remain socially isolated and vulnerable groups, despite encouraging improvements in social attitudes and the conditions of these groups in recent years. The Manja in Konta and Decha woredas of SNNPR are particularly disadvantaged group, despite their integration into the mainstream communities and growing participation in AGP1 CIGs and innovative groups.

vii) **Ethnic minorities.** Ethnic minorities, who settled in the participating woredas away from places of origin over the years, are vulnerable because of being numerically small and practicing livelihood strategies different from those of the host communities. Main examples to be mentioned in this regards are the Irob, Saho and Kunama in Tahtay Adiabo and Kafta Humera woredas of Tigray, and the Gumz and Shinasha in Guangua woreda of Awi Zone of Amhara national regional state

participants and are represented well in KDC. The fact that AGP1 treats women as a separate category has highly enhanced their participation in the CIGs. Their participation in project activities like sheep fattening, poultry, milk production, as well as water and soil conservation is good. However, they are reluctant to participate in SSI because activities related to irrigation require intensive labor input for routine follow up and irrigation maintenance. Distance of the irrigation site and possession of land in some areas are other challenges which limit the participation of women (and FHHs) in irrigation projects. However, women are more likely to benefit from HHI, which will be supported under AGP2. Overall, women experience difficulties in balancing participation in group activities and their other household responsibilities. Under AGP2, more attention will be provided to promoting technologies specifically targeting women. Capacity development support to CIGs will be more in depth and longer term to support the sustainability of these groups.

xi) **Voluntary Land Donation.** SA indicated that there were some gaps in managing social safeguards issues related to land acquisition and property losses including limited capacity and

the case of community investments (the construction of small-scale feeder roads, footbridges, ,
SSI

7.

resolving conflicts in many parts of the country. Although the term has different name among different ethnic groups, it has a common characteristic in that elders are the main people involved. For instance, among Gumz ethnic group, it is called Mangima. It is the most important traditional institution for preventing, resolving and managing ethnic conflicts of different scales and levels in different parts of the country. Through the application of the mangima institution, the inter-ethnic conflict between the Gumz and other ethnic groups that were resettled in Metekel was somehow settled. Gradually, however, these traditional conflict resolution mechanisms have started to erode for various reasons. According to some elders, Ethiopian state administration took conflict management responsibilities from clan and group leaders and placed it in the hands of the local kebele administrations.

8. The government has agreed to implement the project in accordance with the following mechanisms. Land acquisition related grievances and disputes that arise during the course of implementation of a resettlement and compensation sub-projects will be resolved in a manner that will be cost efficient to the Project Affected People (PAP) as stated in the RPF. This will start with establishing a register of resettlement/compensation related grievances and disputes, with well-defined conditions of access to this register. This register shall be widely disseminated within the interested area of the community as part of the consultation undertaken for the sub-

the model of traditional dispute resolution mechanisms, in the form of a locally selected Mediation Committee consisting of the following members: IA; local non-governmental organization (chairperson) and local representatives of PAP (2 to 5), who should be selected in the interested area. The existence and procedural details related with this first instance mechanism will be widely disseminated to the interested population as part of the consultation undertaken for the sub-

Social Management Plan: Potential risks and challenges and recommendations

10. This social management plan, as o

		supported by CDSF. M&E system to be strengthened to allow regular feedback from groups.
Component II: Agricultural research	Research technologies tend not to take into consideration the needs and demands of women.	Under AGP2, all technologies researched will include gender screening, and a specific target will be established for the number of technologies released which will specifically address the needs of women.
Component III: Small-Scale Irrigation	<p>Weak implementation capacity (e.g., SSI and rural feeder road construction) are the major challenges being faced by the IAs.</p> <p>Irrigation schemes which use surface water might be a potential source of conflict among the watershed communities settled in different areas along the course of the river. Conflicts or tensions are likely to occur during the implementing of AGP2 in relation to irrigable land. According to the Oromia Rural Land Use and Administration Proclamation (Proclamation No. 130/2007), Art. 14(4), irrigation land could be redistributed in order to properly utilize water and irrigable land, and thus farmers would hold a maximum of 0.5 ha in such areas.</p> <p>Sustainability of the projects built might be at risk because of weak sense of ownership by the community.</p>	<p>A watershed approach to planning will be adopted under the AGP2, to be detailed in the PIM. This would take into account all users of water within the watershed and address cultural and social sensitivities. All affected communities would be consulted.</p> <p>In the event of conflict over the access to and use of water, there will be an intensive community consultation and awareness raising program and strengthen the use of indigenous local structures such as the jaarsummaa, shimgilina, yewuhaabat, etc., in conflict resolution processes. RPF will be fully applied where required.</p> <p>Ensure that project IAs are culturally sensitive to the underserved communities and provide adequate cultural sensitive trainings to the officers, and more importantly, involve the beneficiary communities in the implementation of the project from the outset and use approved RPF</p>

		on issues of land take.
Component IV: Agricultural Marketing and Value Chain	<p>CIGs are not effectively connected to the market.</p> <p>No credit linkage was reported from the AGP1 woredas, consequently CIGs could encounter shortage of finance to start businesses and expand their small-scale businesses.</p> <p>One major challenge AGP1 encountered during implementation was limited land availability for CIGs to become operational. The informants anticipate AGP2 will face the same problem.</p> <p>Rural youth unemployment and underemployment need to be supported under the project.</p>	<p>Under AGP2, the approach to support farmer groups is based on lessons learned from the on-going AGP1. The changes are as follows:</p> <ul style="list-style-type: none"> i) support is restricted to women and youth groups, with no further support to mixed CIGs which tend to be dominated by men and exclude women; ii) all CIGs would be eligible for support from TA, capacity development and matching grants and Innovation Groups would be discontinued as this caused tensions; iii) fewer groups would be supported but with enhanced support to increase sustainability; iv) guidelines for the establishment and support to groups have been revised and disseminated, including clarity on eligible members and transparent processes for selection; v) enhanced support will be provided for identifying viable economic activities and preparing good quality business plans, which match resource availability, including access to land so as to avoid situations where lack of land availability inhibits the groups from achieving their objectives; vi) specific support will be made to link CIGs to markets (e.g., through the support of VCs and seed multiplication); vii) under CDSF, support would be targeted at CIGs and to those agencies (including the Cooperative Agency), to provide support to CIGs; and viii) close monitoring of CIGs would be conducted to determine their performance and take corrective measures if required.
Component V: Program management, Monitoring, Evaluation and Learning	Mismatch between	

participation.

The tendency to consider AGP1 as an external project could jeopardise the implementation of AGP2.

Through persistent awareness raising program, it should be ensured that implementing structures at all levels know about AGP2 and commit themselves for proper implementation of the project in a culturally appropriate manner. This will be reflected in the AGP2 communication strategy.

SCs need to meet regularly as per the PIM provision. If not, there is a risk of insufficient oversight and lack of ownership.

As principal owners of the project, SCs should commit themselves to ensure there are proper planning, implementation and M&E

Weak project technical support and follow up in almost all AGP1 woredas affects the effectiveness of the project components in which various CIGs are organized.

Low capacity at woreda and kebele levels to implement the project.

mechanism stipulated in the ESMF is not uniformly used during the implementation.

Weaknesses in M&E.

		<p>the law and gender sensitive issues, particularly women rights.</p> <p>Introduce participatory M&E system and marry it with more traditional results-oriented approaches to project management. Further, social and environmental safeguard issues should constitute the core of M&E exercises and ESMF needs to provide detail steps and templates for screening process.</p>
<p>Consultation</p>	<p>Direct consultation with the whole kebele residents was observed to be rare in most of the woredas covered in this study. The modus operandi is conveying the message through representatives selected from the sub-kebele (zone).</p> <p>Danger of making consultation a one-time event or campaign. Existing information gap on provision of ETQq176.4</p>	

- following the enhancement of market linkages between smallholders and buyers/processors/exporters;
- vii) enhanced bargaining power, understanding of markets and management capacity of smallholders and their POs (Primary Cooperatives and Cooperative Unions);
 - viii) incremental on and off-farm employment generated through increased productivity and production as well as increased share of production that is marketed/processed;
 - ix) foreign exchange savings/increased earnings through reduced importation of wheat and some processed products as well as increased exports of pulses and oil crops and livestock products;
 - x) reduced trans-boundary animal diseases through improved animal health services;
 - xi) improved natural resources protection, enhanced bio-diversity and resilience to climate change risks; and
 - xii) improved social stability, overall well-being and livelihoods in targeted production areas.

Rationale for public sector provision/financing

4. AGP2 would address a number of market failures, including: i) difficulties of smallholders and their POs to access inputs (lack of availability of certified improved seeds in some woredas), technologies/best practices, and investment financing; ii) deficient or insufficient links between smallholders and formal agribusinesses/ wholesalers/ exporters in many targeted VCs; and c) deficiencies in the cereals, pulses and oil crop seed markets. It would also support traditional public goods such as irrigation works, market centers and public advisory services.

Value added of World Bank's support

5. The added value technical input based on international experience for similar smallholder projects, including support for public service provision, capacity development of farmer groups

7. **Methodology.** Typical crop models (per ha basis) were developed for the main crops currently cultivated by targeted smallholders in the six national regional states. These are the following:

- i) Cereals: wheat, barley, teff, maize, and sorghum;
- ii) Pulses: fava (common) bean, haricot bean, chickpea, and lentil;
- iii) Oil crops such as: sesame, linseed, and nugeed;
- iv) Vegetables (rainfed and irrigated): onion, tomato, head cabbage and sweet pepper are the most commonly cultivated vegetables that were considered; and
- v) Tubers: potato, sweet potato, and others such as yam or cassava (for SNNPR mainly).

8. The calculations allow:

- i) C
improved technology) situations;

should rather assume some use of the proposed improved input/practices and a slightly higher yield than the ones obtained under the traditional practices; and It is estimated that the average yields by crop recorded at national (and regional)

a recent baseline
survey of AGP2 targeted areas/smallholders;

ii) **Estimate of total Revenue and Sales.**

- i) **Post-harvest losses** (on farm, during threshing and transport from farm to house

iii) **Output prices.**

If a single figure for output price for each crop is used, there is a risk to overestimate the revenue/cash income under each crop model. Therefore,

i

be assumed that surpluses are sold at different times and prices after harvest, particularly as participating AGP2 smallholders will be supported to link with primary buyers/cooperatives and the later cooperative will also receive capacity building and funding to increase their bulking capacity;

In both the situations, various share of the surplus production (over self-consumption) would be marketed: a) the largest share of surplus would be sold at harvest (at the lowest price as per available market data); b) a lower share after short storage max 1-2 months (at medium price); and c) limited share after 2-5 months storage, depending on crop types, at a peak price during the lean season; and

Through increased marketing opportunities offered to smallholders, increased cash incomes and savings capacity as well as lesser dependence on collectors and price fluctuations.

Summary of crop models assumptions

10. Crop models have been developed on the basis of extensive discussions with the BoA, the FAO regional coordinators in AGP1 Regions, CASCAPE managing staff²⁰, some smallholders (in Lome and Ziway, in Oromia region, for vegetable production) and on secondary sources of data.

MoA and adapted to each regional context by the regional BoA have been consulted (after partial translation from Amharic, Oromian, Tigrinian into English by the FAO Ethiopia staff).

Input and output prices. Prices of agro-chemicals, improved certified seeds, animal traction services (oxen-plough), hired labor, transport costs from farm/house to local markets, etc., are based on farm gate prices, which can vary quite considerably according to the remoteness of the kebele considered. Output prices considered in the financial analysis take into account inter-annual and intra-annual variation between harvest period and the lean season (such intra-annual variation can be particularly high for cereals). They are based on market data in Addis Ababa (adjusted to farm gate prices in AGP2 woredas) received from Ethiopian Grain and Trade Enterprise (EGTE).

11. Crop models take into consideration a change in the sale pattern of outputs

their household self-consumption of cereals/pulses and sell surpluses on the market through various channels

EGTE and others; (ii) self-consumption, which is particularly high for smallholders in comparison to total farm production and production per ha, was estimated as well as net sales of surplus in order to estimate cash income (net of self-
situations.

12. **Yields and cropping patterns.** ders current yields/cropping patterns as obtained/practiced by smallholders, which constitute the main AGP2 target group. Through grouping into simplified groups and/or becoming members of primary cooperatives and/or becoming suppliers of agribusinesses/assemblers as well as to enhanced provision of extension and adaptive research services, these smallholders will have enhanced access to: i) improved technologies (use of improved certified seeds, higher doses of fertilizers, use of chemicals, pooled mechanization services, etc.); ii) output markets (through organized bulking and marketing services offered by cooperatives, and tighter links with large buyers agents/wholesalers/agribusinesses); iii) financial services (linking them and their POs with financial institutions; and access to seed capital through matching grants particularly targeting women and youth); and (iv) higher average farm gate prices (through improved quality and

20

national regional states covered by AGP1 in the last three years. In carrying these trials, it recorded: (i) the traditional farmer practice (that CASCAPE calls or traditional practice in its terminology); (ii) the best practice (as recommended by MoA extension system); (iii) the agricultural research-recommended practice; and (iv) sometimes, innovations/practices introduced by the farmers themselves. Unfortunately this data is not yet computed nor available. CASCAPE is currently in the process of thoroughly analyzing its database to link: (a) input use (seed type/rate, fertilizer type/rate, pesticide type/rate) and cropping pattern description; to (b) effectively measured . It should be available, at least for some sites, as from mid-January 2015.

standards of production to meet buyers/agribusinesses demand, improved negotiation skills, higher incomes and lower dependence on a few buyers).

13. **Financial results.** The financial results of the Rainfed Farm model

16. all increased production as
of about ETB 6,900 (US\$345) from rainfed crops. These results confirm the soundness of activities identified for AGP2 along the targeted rainfed crops and VCs.

Micro-Irrigation and Household Irrigation (MHIS)

17. **Methodology and Assumptions.** Household and micro-irrigation to be supported under AGP2 would cover a variety of technologies such as hand-dug wells, 6i8y0 6i8y0 6i8y0 6i8(50(6i8y0)-50(6i8

22. Although a large variety of vegetables could be cropped, the model considers the four main cropped ones: i) onions (in high demand, that are relatively perishable and could be stored); ii) tomatoes (in high demand but very sensitive to pest attacks and very perishable and therefore, subjected to high farm gate price variations, and thus quite risky); iii) green pepper (not an easy crop to produce but in high demand during fasting period); and iv) head cabbage.

23. Although most farmers generally aim at fully cropping the land twice under HHI (and in some exceptional cases three times, like in the Rift valley; depending on crop choice and market demand), a cropping intensity of only 150 per cent (e.g., a total cropped area of 0.75 ha per year) was assumed in the model to be on the safe side. Out of this total cropped area, it is assumed that the share of each crop would be as follows: onion (45 per cent), tomatoes (20 per cent), head cabbage (20 per cent) and green pepper (15 per cent).

24. The HHI model has been developed after extensive discussions with irrigation agronomists and engineers from MoA Natural Resources Management Directorate and ATA. Cropping practices, inputs usage and output prices (at farm gate) are based on discussions with vegetable farmers in Ziway area as well as analyses of the numerous socio-economic studies of SSI schemes.

25. **Financial results.** The financial results of the HHI model

(0.5 ha): the net income per household derived from the irrigated land²² would be more than doubled, increasing from about ETB 4,650 (to around ETB 12,100 (US\$605) per year

27. -
consumption of such vegetables would be negligible as compared to production; therefore, most

situation of AGP2 smallholders that would benefit from SSI schemes construction and rehabilitation. For the sake of constructing an SSI scheme model, it is decided to include a mix of most commonly cropped cereals and vegetables, excluding seed production, fruit and industrial crops meant for agro-processing that might represent less frequent cases. The Table 3a below presents the cropping pattern used in the typical SSI scheme model (base of 100 ha command area) that is developed for carrying out the financial and economic analyses.

Table 3a. SSI Scheme Model - Cropping Pattern "with project" and "without project"

32. **Yield “with project” build-up.** As in most cases, targeted smallholders would have limited exposure to SSI, cropping vegetables on a larger scale than in their courtyard, etc. A progressive yield build-up over 5 years (starting from the start of each SSI scheme operation) before being stabilized at 80 percent of target yield has been assumed. Indeed, it is more realistic to consider that on average the yield achieved is to some extent lesser than the target yield which is based on the full application of the best practices. In parallel, it is assumed that full input and operational costs per ha would be met by smallholders as from the first year of operation of the

Table 3b. SSI Scheme Model - Yield b

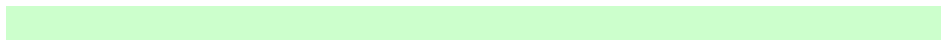
allows calculation of the annual stream of total economic benefits derived from HHI adoption.

- iii) **Benefits from small scale irrigation (SSI).** Similar to HHI, the number of ha of new SSI schemes constructed every project-year is known (from the project costs in Costab), which in turn allows to aggregate the incremental net economic benefits stream over 20 years for all new SSI schemes constructed. In order to estimate the benefits derived from existing SSI schemes rehabilitation, it has been estimated that such benefits would amount to 50 per cent of those of new SSI schemes construction.

Table 4a. Sensitivity Analysis Summary - Base case

49. **Alternate case (all project costs).** Under this pessimistic scenario for which all project costs are considered while no benefits for the component 4 have been accounted for, the sensitivity analysis still indicates a resilience to increase in costs and reduction or delays in benefits. The EIRR would still be 12 percent, if benefits are reduced by 10 percent (and 11 percent if benefits are reduced by 20 percent). If benefits are lagged by two years the EIRR would still be established at 10 percent. A summary of the sensitivity analysis made under this scenario is presented in Table 4b below.

Table 4b. Sensitivity Analysis Summary – Alternate case



50. **Fiscal Impact.** In the short term, the fiscal impact of the project will be positive, given that the government is minimal. In the medium to long-term, the potential positive fiscal impact of the project might be substantial, mainly due to: i) increased output, income and employment, resulting in increased tax revenues; and ii) multiplier effects due to increased economic activities in targeted production areas, resulting in sustained demand for goods and services, which is expected to generate additional income and employment effects.

51. The main budgetary impact is related to the annual and periodic maintenance of the constructed and rehabilitated access roads for SSI schemes (400 km). These costs will be easily met by the government and in fact represent a small percentage of the overall road maintenance annual budget. .

case

Annex 8: Map of AGP2 Woredas

ETHIOPIA: SECOND AGRICULTURE GROWTH PROGRAMME

