1. **Country and Sector Background**

1. **Agriculture is Ethiopia’s most important sector.** Agriculture is crucial for the country’s food security and the sector is the largest contributor to overall economic growth and poverty reduction. It accounts for about 47 percent of national GDP, almost 90 percent of the foreign exchange earnings, and 85 percent of employment. The livelihood of about 90 percent of the poor is fully or partly dependent on agriculture.

2. **Agricultural growth is fundamental to Ethiopia’s overall development.** Agriculture in Ethiopia is dominated by small-holder and largely subsistence farming with low productivity on fragmented and highly degraded lands. Leading the sector to higher productivity and increased commercialization is not just fundamental to poverty reduction and food security, but can also contribute to meeting a number of other key development challenges that Ethiopia faces. For example, Ethiopia’s high population growth requires increased agricultural production to ensure food security. If this is achieved with full involvement of and benefits for women, this can have significant impacts on household nutritional status and contribute to reduced birth rates. Increased agricultural productivity and commercialization – and in particular the increase in related upstream and downstream economic activities that are part of this development – can also provide some employment opportunities for the many “landless youth” in Ethiopia as well as creating export growth. Similarly, the big environmental challenges that Ethiopia faces due to degradation of productive land and increasing climate variability can only be addressed through higher productivity of crop and livestock production in those areas where it can be done sustainably.

3. **The Government of Ethiopia (GoE) recognizes the importance of agricultural development and has shown a long-standing and strong commitment to the sector.** The
national strategy for “agricultural development-led industrialization” (ADLI) puts agriculture at the forefront of Ethiopia’s development process. This strategy is reflected in the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP). A central theme of the PASDEP is a call for accelerated market-based agriculture development with a focus on Ethiopia’s 13 million smallholder farm households producing around 98 percent of country’s agricultural output. The focus of the GoE’s efforts to promote agricultural growth has been to strengthen rural capacity (including extension, support to farmer associations, training, and to a lesser extent, facilitating linkages between private investors in agriculture and smallholders), expansion of agricultural extension and research, and investment in rural infrastructure, particularly roads. Additionally, the Government has established important initiatives to address environmental degradation and climate change threats. It has also increased its commitment to reducing exposure to chronic food insecurity and shocks, although vulnerability to adverse weather remains significant challenge for Ethiopia.

4. **Despite many challenges, there is significant room for improvement.** For instance, despite the Government’s emphasis on agricultural growth, absolute expenditure figures per capita are still low even in comparison with many other countries in sub-Saharan Africa. Moreover, Government and donors activities are imbalanced with most of their interventions focusing on food insecurity issues (thematic) and food-insecure areas (geographically). This approach results in inadequate attention to harness opportunities for accelerated agricultural growth in many higher-potential areas. Few resources are available for addressing local challenges in non food-insecure areas. The GoE has been a strong advocate for an integrated approach to address the current and emerging challenges through a large multi-donor funded Agricultural Growth Program.

2. **Objectives**

5. **Project Development Objective (PDO).** The PDO of the proposed project (AGP) is to increase agricultural productivity and market access for key crop and livestock products in targeted woredas with focused attention to women and youth.

6. **Key indicators.** The key indicators against which the PDO will be measured are: (i) percentage increase in agricultural yield of participating households (basket crops and livestock products), and (ii) percentage increase in total value of marketed agricultural products per participating household.

3. **Rationale for Bank Involvement**

7. The Bank would support the proposed project (AGP) for the following reasons:

8. **The AGP provides catalytic support for the GoE’s efforts in agricultural development.** As discussed above, agricultural growth is central to the GoE’s development strategy. Yet initiatives in this area face a financial gap as well as technical and capacity constraints in order for the country to be able to achieve the related PASDEP and MDG goals.
AGP would bring both financial and technical resources which are important to leverage support from other development partners.

9. **The Bank’s support to AGP triggers other donors’ commitment to the sector, and for consolidating donor efforts.** The share of donor aid in the budget targeting agriculture and rural development has decreased from 11 percent of total (on-budget) donor aid in FY2003 to only 4 percent in FY2008.\(^1\) While successful interventions exist, donor support to agricultural and rural growth is too fragmented to mainstream successful interventions. Hence, the World Bank can play a substantial role in strengthening and harmonizing donor efforts.

10. **AGP complements other initiatives by the World Bank in Ethiopia.** Support to AGP complements other initiatives by the Bank such as such as the Protection of Basic Services, the Productive Safety Nets Program, and the Sustainable Land Management Program. In addition, the World Bank is supporting the Government to strengthen the relevant policy environment through the development of a Policy and Investment Framework (PIF) on rural economic development and agricultural growth. This task was agreed upon in Ethiopia’s Compact of the Comprehensive Africa Agriculture Development Program (CAADP). The AGP presents a flagship program for long-run sustainable agricultural growth that ensures national food security and efficient use of natural resources.

11. **Agricultural development is a central component of the World Bank’s Country Assistance Strategy (CAS) for Ethiopia.** The April 2008 CAS of the Bank identifies agricultural productivity as one of the four focus areas under Strategic Objective 1: Fostering Economic Growth. Moreover, the CAS requests for a more comprehensive strategy to lift the rural vulnerable people out of the poverty trap and put them on a sustainable path toward better economic lives. The AGP is a crucial component of this strategy and will be key for achieving CAS objectives of reduced food insecurity, vulnerability and environmental degradation.

12. **The World Bank has a large comparative advantage in being a lead agency in promoting agricultural productivity and rural development in Ethiopia.** Many of the largest programs in the country in recent years have been on rural development and food security and have been undertaken with the analytical support and financial contribution of the World Bank. The Bank has acquired substantial experience in Ethiopia in providing technical assistance, policy dialogue and lending support. Recent and ongoing Bank supported projects were in the following areas: rural capacity building, agricultural training and research, irrigation and drainage, fertilizer support and sustainable land management. It also included programs such as the Pastoral Community Development Project among others that take resources through local governments directly to local communities. This substantial experience will contribute in making the AGP a successful operation.

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\(^1\) The relatively low level of financial support for agricultural development has occurred despite the fact that in a recent DAG survey of the 18 biggest donors to Ethiopia 14 ranked ‘Rural Economic Development and Food Security’ as ‘5’, i.e. ‘highest priority’, with the remaining four donors ranking it ‘4’. The same survey shows that 25 percent of the total contribution of these donors was targeting RED&FS, the vast majority going to food security.
4. Description

13. **Approach.** To achieve its PDO, the AGP will: (i) focus on smallholder farmers that contribute to the majority (around 90 percent) of agricultural production in the country; (ii) adopt an approach that seeks to scale up existing best practices and innovations among public sector institutions as well as among farmers and the private sector—in both agricultural production and post harvest value addition—with due emphasis on natural resource conservation and rehabilitation; (iii) strengthen the ability of public and private advisory service providers to respond to smallholders’ demand for new technologies, advice on improved practices and investment in infrastructure; (iv) focus on improving knowledge of and access to existing technologies that have proved to be effective among some farmers; (vi) invest in rural infrastructure such as small scale irrigation; watershed management, including water harvesting and micro-irrigation technologies; rural roads; market infrastructure and possibly other areas such as the development of alternative energy sources. Most interventions will be implemented in a decentralized manner, based on bottom up planning by local communities or farmer groups (whether formal cooperatives or informal common interest groups).

14. **Geographic scope.** AGP is a five-year program implemented in the four major regions namely, Amhara, Oromia, Southern Nations, Nationalities and People’s (SNNP) and Tigray Regions. To achieve maximum impact in the specified period and given limited resources, the program targets high agricultural potential areas (AGP woredas). Based on criteria such as suitability for agriculture, potentials for irrigation, access to infrastructure and institutional capacity, a total of 83 woredas are selected; i.e., 22 woredas in Amhara, 34 woredas in Oromia, 19 woredas in SNNPR and 8 woredas in Tigray.

15. **Expected Benefits.** Specific benefits expected from the AGP include: improved productivity, value addition and market opportunities, resulting in increased incomes, employment opportunities and food security of the smallholder households engaged in the commodities targeted by the AGP. These benefits will primarily result from: (i) increased output and productivity; (ii) reduced post-harvest losses; (iii) improved access to goods, services, markets and information; (iv) reduced transaction costs; (v) improved product quality and increased producer (farm gate) prices; and (vi) improved economies of scale. Increased output, income and employment in the AGP woredas is expected to result in increased demand for goods and services, which is expected to generate additional income and employment effects, and increase GoE tax revenues. As the AGP is supporting high potential areas in the production of major food crops and livestock, the increased output from the targeted areas will increase national production, and thereby contribute to growth in the overall GDP and national food security. In addition, increased exports and/or reduced imports will result in foreign exchange earnings/savings. Furthermore, it is expected that consumers will benefit from reduced consumer prices and improved availability of food commodities of better quality, which would in turn improve food security.

16. **Beneficiaries.** The primary beneficiaries of the AGP are the small and medium-size farmers in the 83 selected AGP Woredas which have a total population of 9.8 million. An estimated 2 million agricultural households in about 2,100 Kebeles (administrative villages) will primarily benefit in the following ways: (i) directly, through capacity building, support to farmer sub-projects, value chain enterprises and irrigated agriculture; and (ii) indirectly, through improved public and private advisory services, road and market infrastructure, and sustainable watershed management.
The project will focus on the participation of women and women-headed households (about 19 percent of total) as well as the youth. Other beneficiaries of the AGP are farmer organizations, large commercial farms, traders, agro-processors and public and private advisory services.

17. **Component Design.** The AGP would have two technical components, i.e., Component 1: Agricultural Production and Commercialization and Component 2: Small scale Rural Infrastructure Development and Management; as well as Component 3: Project Management and Monitoring and Evaluation.

18. **Component 1: Agricultural Production and Commercialization.** The objective of this component would be to strengthen the advisory services, particularly agricultural extension, and develop institutional capacity of farmer organizations and other private sector stakeholders involved in supporting AGP activities. It would support strengthening farmer-market linkages and promote agri-business enterprises. The component would have the following three sub-components: Institutional Development and Strengthening; Scaling-up of Best Practices; and Market and Agribusiness Development (to be supported by USAID and possibly other development partners through a mechanism in parallel to IDA support).

19. **Component 2: Small scale Rural Infrastructure Development and Management.** The objective of this component would be to support the construction, rehabilitation and/or improvement, and management of small-scale infrastructure (agricultural water, rural roads and market) investments to address key constraints in the agricultural production system in order to improve productivity, and to further develop and increase the efficiency of identified value chains supported under Component 1 through improved access to market. The component would have the following two sub-components: Small Scale Agricultural Water Development and Management; and Small Scale Market Infrastructure Development and Management.

20. **Component 3: Project Management and Monitoring and Evaluation.** This component is an integral part of the AGP across all levels and stakeholders. Its objective would be to ensure effective coordination and management of the AGP at all levels of implementation. The component would have the following two sub-components: Project (AGP) Management; and Monitoring and Evaluation.

5. **Financing**

21. The AGP will have a total estimated financing of US$253 million, excluding Government and beneficiary contributions. Of this total, US$150 million is expected to be provided through a combination of grants and loans from IDA. A number of other DPs including CIDA are expected to provide additional funding of about USD50 million through a pooled funding mechanisms. Other DPs, including USAID and UNDP, would provide the additional resources, estimated to be about USD53 million, through parallel funding mechanisms.

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Amount (in US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Partners</td>
<td>103.00</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>150.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>253.00</strong></td>
</tr>
</tbody>
</table>
6. Implementation

22. **Implementation of the AGP will rely on existing Government structures** with the exception of parallel funding supported by development partners. The Ministry of Agricultural and Rural Development (MoARD) and the same respective line agency at regional and woreda level will be the key implementing agencies. Coordination of AGP activities will be undertaken through a high level steering committee at the federal, regional and woreda levels for overall oversight and decision making on major issues; and, AGP coordination units at the federal and regional levels as well as dedicated focal persons at the zonal and woreda levels for day to day management. The AGP coordination units and focal persons will be supported by technical committees with membership from all implementing institutions and service providers. Agricultural and Rural Development Partners Linkages Advisory Councils (ARDPLACs) with broad participation including the private sector and CSOs will provide an advisory function to the AGP Steering Committees and Coordination Units.

7. Sustainability

23. **Various dimensions of sustainability** are related to a comprehensive operation such as the AGP. The most important of these are institutional sustainability, economic sustainability, and system of production sustainability.

24. **Institutional Sustainability**: The project will develop and/or strengthen “institutions” at the kebele, woreda, zonal, regional and federal level. It will build the capacity of farmer groups and enhance their ownership and commitment as they will identify, implement and sustain their own investments. The benefits will go beyond the investments, as the farmer groups will be able to sustain themselves as functional institutions to undertake other activities even after the end of the program. The project will also strengthen woreda and regional institutions through capacity building and increased linkages with other institutions/partners.

25. **Economic Sustainability**: The sustainability of economic benefits derived from the investments will be enhanced by the program through careful financial and technical review of investments. The farmer groups will fully own investments and address operations and maintenance of investments from their own contribution to sustain the economic benefits derived from the investments. The program will also link farmer groups to banks and financial institutions to improve their access to finance, which will create a synergy to enhance economic activities.

26. **System of Production Sustainability**: All farmer groups will be supported by advisory services to undertake their investments. These services will all have a sustainable approach to land and water management. The program will also strengthen the capacity of advisory services in this domain to ensure that farmer groups receive appropriate advice with regard to sustainable management of system of production. In addition, farmer groups will be trained in environmental safeguards and be able to ensure that investments are environmentally sound
8. Lessons Learned from Past Operations in the Country/Sector

27. **Over the years, the World Bank had financed a number of projects and programs** in Ethiopia. Great deals of lessons have been learned in the course of implementing the projects and programs. In this regard, considerable efforts were made to draw from lessons learned from the implementation of the various programs and incorporate them in the design of AGP. The following are some of the lessons learned from past operations and incorporated into the design of AGP.

28. **Importance of linking agriculture to private sector and market development**: Most of past strategies implemented to transform Ethiopian agriculture from subsistence smallholder based to commercial agriculture focused mainly on addressing the production side of smallholder agriculture. In the context of growing commercialization of agriculture, an important global lesson for sustaining future growth is the need for much greater focus on developing linkages with markets and the private sector and complementing productivity-enhancing interventions with those that address bottlenecks along the value chain. Accordingly, the design of AGP supports new institutional arrangements and private-public partnerships with the aim of integrating small farmers with high-value agricultural markets.

29. **Fostering local decision-making, solutions, and innovations**: Given the great diversity of Ethiopian agriculture, local problems require local solutions. This requires decisions to be made at the local level by the participating communities and other private sector stakeholders, and vetted by local governments, mainly the kebele and woreda levels. The AGP, therefore, supports the Government’s decentralization strategy by empowering farming communities to participate in determining the kebele/woreda level investment programs. It also gives due attention to inclusion of women and youth in the development process to fully realize their potential to contribute to agricultural growth.

30. **The central role of improved technologies in enhancing the process of agricultural growth**: Commercially attractive and demand driven technologies are responsive to specific needs of their clients and this requires that the public institutions and other stakeholders in the research and development process needed to work together. AGP recognizes that future growth must rely on more knowledge-intensive agriculture and supports both physical, as well as technical interventions for sustainable use of natural resources, especially land and water, and improved tolerance to stresses.

31. **Investments in small-scale rural infrastructure enhance agricultural growth**: Empirical evidence available suggests that investments in small scale rural infrastructure enhance agricultural growth substantially. These include small scale irrigation schemes, rural roads and market infrastructures. Demand-based and well planned small scale rural infrastructures consistent with strong emphasis on stakeholder capacity building, and facilitation with procurement and financial management ensure equitable participation throughout the process and adequate environmental and social safeguards. AGP is designed in such a way that it supports the development and management of small scale rural infrastructures, particularly agricultural water and market infrastructures.
32. **Building implementation capacity of service providers including extension as well as financial management and procurement**: Limited implementation capacity of service providers is found to have significantly curtailed the successful implementation of projects and programs in the past. Therefore, carefully thought and well designed capacity building programs are crucial in determining the success of project implementation. The AGP design has taken into account the need to strengthen the Government’s capacity, as it includes interventions ranging from hiring of critical additional staff and provision of transport and office equipment to a combination of formal and informal training support, workshops, on-the-job training, training of trainers and access to expert advice.

33. **A well-functioning M&E ensures effective and efficient project planning, coordination, and implementation**: M&E systems are either largely lacking or are poor in most of the projects that have been implemented in Ethiopia. This has deterred project success and also made impact evaluation difficult. AGP adopts a system by which regular monitoring and evaluation, as well as specific reviews and discussions would create a learning environment to share experiences to adapt implementation arrangements and/or design. Moreover, it recognizes that it is important to set up the M&E system prior to project implementation in order to document the actual results and hence an M&E system for AGP.

9. **Safeguard Policies (including public consultation)**

34. The Bank-internal environmental and social review revealed that a number of World Bank Safeguard Policies are triggered as indicated in the table below.

<table>
<thead>
<tr>
<th>Applicable Safeguard Policies</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
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</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Forests (OP/BP 4.36)</td>
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<td>Pest Management (OP 4.09)</td>
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<td>Safety of Dams (OP/BP 4.37)</td>
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<td></td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
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<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)</td>
<td></td>
<td>X</td>
</tr>
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</table>

35. The AGP has been categorized as Category B (CAT B) because the potential safeguard risks are deemed to be preventable and mitigable, provided sub-projects are properly screened at the conceptualization stage, alternatives are sought and measures are beforehand identified to address them. In this regard and as part of the AGP preparation process, two sets of studies have been proposed and are being undertaken: a Social Assessment (SA) and an Environmental and Social Management Framework (ESMF).

36. **Social Assessment (SA)**. A SA has been carried out in close consultation with communities in selected AGP woredas to assess the social characteristics of local communities, including assessing the existence of Indigenous People (IPs) and analyzing the opportunities and constraints of women and men to participate in agricultural growth and in local organizations; conducting consultations with local stakeholders; and establishing socio-economic baseline information. The SA
has also assessed any potential adverse social impacts of the AGP as well as the institutional capacity of the AGP management to monitor social safeguard issues and to employ participatory approaches and undertake gender analyses. Mitigating measures recommended by the SA are integrated into the AGP design.

37. **Environmental and Social Management Framework (ESMF):** Since the scope and nature of the sub-projects and their site-specific locations are not yet known, an ESMF has been developed. The ESMF includes include issues related to environmental assessment, pest management, dam safety, involuntary resettlement and physical cultural property (“chance find”) as well as riparian notification. The ESMF will be an instrument for screening proposed sub-projects under the AGP against any significant potential environmental risks and social impacts that implementation of these sub-projects are likely to pose. It further proposes ways for preventing and mitigating any potential safeguard risks, including health and safety impacts.

10. **List of Factual Technical Documents**

38. Technical documents in the project files include:

   (a) AGP Project Implementation Manual (PIM) including Annexes;

   (b) Environmental and Social Management Framework;

   (c) Social Assessment.

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