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IN THE AMOUNT OF SDR 71.8 MILLION (US\$ 108.4 MILLION EQUIVALENT)
INCLUDING
SDR 29.7 MILLION (US\$ 44.9 MILLION EQUIVALENT)
IN PILOT CRW RESOURCES

AND A

PROPOSED IDA GRANT
IN THE AMOUNT OF SDR 27.5 MILLION (US\$ 41.6 MILLION EQUIVALENT)
IN PILOT CRW RESOURCES

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR AN

AGRICULTURAL GROWTH PROJECT

September 3, 2010

Sustainable Development Department
Agriculture and Rural Development Unit
Country Department 3
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 1, 2010)

Currency Unit = Ethiopian Birr (ETB)
ETB 13.50 = US\$ 1
US\$ 1.511 = SDR 1

FISCAL YEAR
July 8 – July 7

ABBREVIATIONS AND ACRONYMS

ADLI	Agricultural Development Led Industrialization
AfDB	African Development Bank
AGP	Agricultural Growth Program/Project
AI	Artificial Insemination
APLF	Activity Performance Tracking Format
AMIS	Agriculture Management Information System
APL	Adaptable Program Lending
ARDPLAC	Agriculture and Rural Development Partners Linkage Advisory Council
ATVET	Agricultural Technical Vocational Education and Training
BDS	Business Development Service
BoARD	Bureau of Agriculture and Rural Development
BOAM	Business Organization Access to Markets
BoFED	Bureau of Finance and Economic Development
BoTI	Bureau of Trade and Industry
BoWR	Bureau of Water Resources
CAADP	Comprehensive Africa Agriculture Development Program
CAS	Country Assistance Strategy
CIDA	Canadian International Development Agency
CLPP	Community-level Planning Process
CPAR	Country Procurement Assessment Report
CRW	Crisis Response Window
CSA	Central Statistical Authority
CSC	Community Score Card
CSO	Civil Society Organization
CU	Coordination Unit of the AGP
DA	Development Agent
DAG	Development Assistance Group
DfID	Department for International Development (UK)
DPs	Development Partners
EAAPP	East Africa Agricultural Productivity Program
EC	European Commission
ECX	Ethiopian Commodity Exchange
EDRI	Ethiopian Development Research Institute
EGC	Economic Growth Corridor
EIAR	Ethiopian Institute of Agricultural Research
EIRR	Economic Internal Rate of Return

EKN	Embassy of the Kingdom of the Netherlands
EPA	Environmental Protection Authority
ERA	Ethiopian Roads Authority
ESMF	Environment and Social Management Framework
ESSP	Ethiopia Strategy Support Program
ETB	Ethiopian birr
FAO	Food and Agriculture Organization of the United Nations
FCA	Federal Cooperative Agency
FDI	Foreign Direct Investment
FM	Financial Management
FMR	Financial Monitoring Report
FREG	Farmer Research and Extension Group
FY	Fiscal Year
GAC	Governance and Anti-corruption
GAFSP	Global Agriculture and Food Security Program
GDP	Gross Domestic Product
GoE	Government of the Federal Democratic Republic of Ethiopia
IBEX	Integrated Budget and Expenditure
ICB	International Competitive Bidding
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IFR	Interim Financial Report
IPMS	Improving Productivity and Market Success
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
KDC	Kebele Development Committee
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MFI	Micro-finance institutions
MIS	Management Information System
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MoU	Memorandum of Understanding
MTR	Mid-Term Review
NBE	National Bank of Ethiopia
NCB	National Competitive Bidding
NGO	Non-governmental organization
NPV	Net Present Value
NPW	National Policy on Women
O&M	Operations and maintenance
OFAG	Offices of the Federal Auditors General
ORAG	Office of the Regional Auditor General
PAD	Project Appraisal Document
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBS	Protection of Basic Services
PCDP	Pastoral Community Development Project
PCN	Project Concept Note
PDO	Project Development Objective

PFM	Public Financial Management
PIF	Policy and Investment Framework
PIM	Project Implementation Manual
PPA	Public Procurement and Property Administration Agency
PSCAP	Public Sector Capacity Building Program
PSNP	Productive Safety Net Program
RAMPA	Regional Agricultural Marketing and Promotion Agencies
RCBP	Rural Capacity Building Project
RDPS	Rural Development Policies and Strategies
RED&FS	Rural Economic Development and Food Security
RPF	Resettlement Policy Framework
RUFIP	Rural Financial Intermediation Project
RUSACCO	Rural Savings and Credit Cooperative
SBD	Standard Bidding Document
SC	Steering Committee of the AGP
SDR	Special Drawing Rights
SIDA	Swedish International Development Cooperation Agency
SIL	Specific Investment Loan
SLMP	Sustainable Land Management Program
SMS	Subject Matter Specialist
SNNPR	Southern Nations, Nationalities, and Peoples Region
SNV	Netherlands Development Organization
SOE	Statement of Expenditure
SPG	Specific Purpose Grant
SSI	Small-scale Irrigation
SWG	Sector Working Group
SWAP	Sector-wide Approach
TC	Technical Committee
UNDP	United Nations Development Program
USAID	United States Agency for International Development
US\$	United States dollar
WAC	Woreda Advisory Committee
WDC	Woreda Development Committee
WDP	Woreda Development Plan
WFP	World Food Program
WOARD	Woreda Office of Agriculture and Rural Development
WOFED	Woreda Office of Finance and Economic Development
WUA	Water user associations

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ETHIOPIA: AGRICULTURAL GROWTH PROJECT

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ETHIOPIA
 AGRICULTURAL GROWTH PROJECT
 PROJECT APPRAISAL DOCUMENT
 AFRICA
 AFTAR

Date: September 3, 2010 Country Director: Kenichi Ohashi Sector Manager/Director: Karen McConnell Brooks / Jamal Saghir Project ID: P113032 Lending Instrument: Specific Investment Loan	Team Leaders: Achim Fock / Laketch Mikael Imru Sectors: General agriculture, fishing, and forestry sector (80%); Agricultural extension and research (20%) Themes: Rural services and infrastructure (70%); Rural policies and institutions (20%); Land administration and management (10%) Environmental category: Partial Assessment
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Project Financing Data

[] Loan [X] Credit [X] Grant [] Guarantee [] Other:

For Loans/Credits/Others:
 Regular IDA15 Credit (US\$ m): 63.5
 Pilot CRW Credit (US\$ m): 44.9
 Pilot CRW Grant (US\$ m): 41.6
 Total Bank financing (US\$ m): 150.00
 Proposed terms: Standard

Financing Plan (US\$ m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT			7.00
Local Communities			20.80
International Development Association (IDA)			150.00
USAID			50.00
UNDP			2.40
Bilateral Agencies (CIDA, others)			51.00
Total:			281.20

<p>Borrower: Government of the Federal Democratic Republic of Ethiopia (GoE)</p> <p>Responsible Agency: Ministry of Agriculture and Rural Development (MoARD)</p>

Estimated IDA disbursements (Bank FY/US\$ m)									
FY	2011	2012	2013	2014	2015	2016			
Annual	19.00	36.00	36.00	32.00	18.00	9.00			
Cumulative	19.00	55.00	91.00	123.00	141.00	150.00			
Project implementation period: Start December 1, 2010 End: September 30, 2015 Expected Effectiveness Date: December 1, 2010 Expected Closing Date: September 30, 2015									
Does the project depart from the CAS in content or other significant respects? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD I.C.</i>									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD IV.G.</i>									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Does the project include any critical risks rated “substantial” or “high”? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD III.E.</i>									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD IV.G.</i>									
Project development objective <i>Ref. PAD II.B., Annex 3</i> The PDO is to increase agricultural productivity and market access for key crop and livestock products in targeted woredas with increased participation of women and youth.									
Project description [<i>one-sentence summary of each component</i>] <i>Ref. PAD II.C., Annex 4</i> The proposed AGP consists of two technical components covering: (i) Agricultural Production and Commercialization and (ii) Small-scale Rural Infrastructure Development and Management. The third component is AGP Management and Monitoring and Evaluation. <i>Component 1: Agricultural Production and Commercialization.</i> The objective of this component is to strengthen the capacity of farmer organizations and their service providers to scale up best practices and adopt improved technologies in production and processing, and to strengthen marketing and processing of selected commodities through engagement with private sector stakeholders. <i>Component 2: Small-scale Rural Infrastructure Development and Management.</i> The objective of this component is to support the construction, rehabilitation and/or improvement, and management of small-scale rural infrastructure to improve productivity, and to further develop and increase the efficiency of key value chains through improved access to markets. <i>Component 3: AGP Management and Monitoring and Evaluation.</i> The objective of this component is to support effective coordination and management of the AGP at all levels of implementation, to establish an effective monitoring and evaluation (M&E) system, and to create a learning environment for continuous improvement of the AGP design and other agricultural growth interventions.									

Which safeguard policies are triggered, if any? **Ref. PAD IV.F., Technical Annex 10**

Environmental Assessment (OP 4.01)

Pest Management (OP 4.09)

Involuntary Resettlement (OP/BP 4.12)

Safety of Dams (OP/BP 4.37)

Projects on International Waterways (OP/BP 7.50)

Physical Cultural Resources (OP/BP 4.11)

Significant, non-standard conditions, **if any**, for:

Ref. PAD III.F.

Loan/credit effectiveness:

- The Borrower has adopted a PIM, including a Financial Management Manual and Procurement Manual, in form and substance satisfactory to the Association.
- The Borrower has established the Steering Committee and Technical Committee at the federal level.
- The Borrower has established the CU at the federal level, with core staff in place (Coordinator, Financial Management Specialist, and Procurement Specialist).

Covenants applicable to project implementation:

- Establishment of fully-staffed Federal CU, satisfactory to the Bank: October 30, 2010.
- Recruitment of External Auditor: Two months after effectiveness.
- Establishment of Steering Committees and Technical Committees at the regional level: Two months after effectiveness.
- Establishment of the CUs at the regional level with core staff in place (Coordinator, Financial Management Specialist, and Procurement Specialist): Two months after effectiveness.
- Inclusion of AGP in the annual work plan of the MoARD Internal Audit Unit: Three months after effectiveness.
- Recruitment/assignment of accountant for federal CU and accountant for Oromiya CU: Three months after effectiveness.
- Recruitment/assignment of safeguard specialist in each BoARD: Three months after effectiveness.
- Federal CU to contract procurement consultants for annual independent procurement audit of regions: Nine months after effectiveness.
- Adoption of Small Dam Safety Guidelines: Three months after effectiveness; submission to the Bank of report on safety-related issues of dams: Three months before closing.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

Impact of global economic crisis on Ethiopia

1. **Ethiopia's economy has been severely affected by recent exogenous shocks.** The first shock wave came in the form of sharp increases in global commodity prices in 2008. The price increases and failure of the *belg* (short) rains fueled expectations of inflation, caused consumers to stockpile food, and contributed to a near doubling of food prices between July 2007 and July 2008. At the same time, higher prices of fuel and fertilizer pushed Ethiopia's balance of payments into a position of immediate and serious vulnerability. The International Monetary Fund (IMF) Staff Report estimated that the increase in imports resulting from higher global prices was in the range of US\$ 550–770 million dollars (about 2–3 percent of 2007/08 GDP) in 2008/09. Gross international reserves suffered an unprecedented decline, falling from 1.9 months of imports at the end of 2006/07 to less than one month in October 2008.

2. **The rise in global commodity prices was followed by a global recession, prolonging the foreign exchange problem.** The second wave of exogenous shock was the global economic slowdown of 2009. Ethiopia's merchandise exports, which had grown at an annual average rate of 20 percent per year in dollar terms between 2005/06 and 2007/08, shrank by 1.1 percent in 2008/09. The growth rate of private transfers (which include remittances) fell from 33.1 percent to –1.8 percent during the same comparative period. The annual change in foreign direct investment (FDI) slowed dramatically, declining from 81.5 percent to –1.2 percent. According to the latest IMF Staff Report, Ethiopia's real GDP growth rate was expected to be around 7.5 percent in 2008/09, significantly lower than the 11.5 percent average growth rate registered in the previous three years (though recent government figures show that the economy actually grew at 9.9 percent in 2008/09).

3. **The global crisis has severely affected Ethiopia's poor.** The price of goods consumed by the poor is estimated to have risen by 78 percent in urban areas and 85 percent in rural areas during the last two years. The welfare impact of these changes has been particularly large for poor households in urban areas. The impact on rural households has been lower but still negative, as nearly half of rural households are net food buyers. Underlying the reduction in economic activity are reports of growing bankruptcies, increases in non-performing loans, a slowdown in private investment and wage growth, and the rising threat of unemployment.

Policies to address the macro imbalance and external shocks

4. **To mitigate the impact of the exogenous shocks and address domestic economic imbalances, the government has undertaken a number of measures.** Since Ethiopia's aggregate demand was running ahead of its efforts to expand the economy's aggregate supply capacity, in the short run the government had to resort to policies to curb excess demand. Some of the key reforms undertaken so far include:

- ***Eliminating domestic fuel subsidies.*** The government eliminated the fuel subsidy in October 2008 by adjusting regulated domestic prices to the import parity level: Prices

of gasoline, diesel, fuel oil, and kerosene were raised by 6 percent, 39 percent, 32 percent, and 50 percent, respectively.¹ The government also replaced the old pricing system with a new one in which domestic fuel prices are reviewed and adjusted every month.

- ***Tightening fiscal policy and eliminating domestic borrowing.*** General government domestic borrowing was reduced to zero in 2008/09 by containing expenditures and mobilizing additional revenue through administrative measures. The general government fiscal deficit was reduced from 2.9 percent of GDP in 2007/08 to 1.1 percent in 2008/09.
- ***Reducing domestic borrowing by public enterprises.*** By limiting the investment activities of public enterprises and repaying the debt of the Oil Stabilization Fund, public enterprise borrowing was reduced to 2 percent of GDP in 2008/09 compared to 4.4 percent in 2007/08. The government established an inter-agency committee to monitor the activities of key public enterprises and public institutions.
- ***Tightening monetary policy.*** The National Bank of Ethiopia (NBE) kept broad money growth below 20 percent in 2008/09 compared to about 23 percent in 2007/08. Building on earlier increases in reserve requirements (July 2007 and April 2008), which have helped to reduce banks' excess reserves, the NBE closely monitored and controlled reserve money creation arising from its net lending to the government.
- ***Depreciating the local currency.*** The local currency, birr (ETB), was allowed to depreciate in a stepwise fashion by nearly 30 percent against major currencies during 2008/09. After the last round of depreciation in July 2009, the premium in the parallel foreign exchange market has fallen to below 5 percent.
- ***Curbing inflationary expectations.*** To dampen inflationary expectations and soften the impact of inflation on the most vulnerable population, the government imported 520,000 metric tons of food grain (around 3.5 percent of domestic production) using its own resources and sold part of it to the urban poor at a subsidized price. The government also temporarily abolished the value-added tax, turnover tax, and surtaxes on some food items. It raised the cash-for-work wage rate (and cash transfer rate for labor-poor households) in its rural Productive Safety Net Program (PSNP).

5. **Ethiopia's macro-economic performance remains on track as per the IMF's Exogenous Shocks Facility.** The High Access Component of Exogenous Shocks Facility (ESF) was approved by the IMF Board in August 2009. The program involves a sum of US\$ 240 million between August 2009 and October 2010, out of which US\$ 115 million was disbursed on approval in August 2009. Preliminary results through September 2009 indicate that the ESF program is on track, having achieved its targets in net foreign assets of NBE, net domestic assets of NBE, the government's domestic financing, domestic public enterprise borrowing, revenue

¹ Fuel subsidies are not necessarily pro-poor. A World Bank analysis in 2005 suggested that subsidies on petroleum products, including kerosene, are captured disproportionately by the rich. The lowest income quintile receives less than 10 percent of total subsidies, while the top quintile receives about 44 percent.

collection, and contracting or guaranteeing of non-concessional debt. One area requiring careful monitoring is the rapid expansion of reserve money and broad money, both of which are in excess of the agreed rate.

Outlook

6. **Ethiopia’s macro-economic situation is likely to remain threatened in the near term given the fragility of the global recovery.** While an improved macroeconomic situation and redressing exchange rate miss-alignment improve the environment for growth, Ethiopia will experience challenges in transforming the external imbalance in the foreseeable future. Ethiopia will continue to experience downward pressures on exports, remittances, and FDI in the foreseeable future, although data lags complicate analysis. In the medium-term, the country should continue perusing prudent macroeconomic management to contain inflation within single-digit and scale up effort to ensure the sustainability of the recent growth momentum and improve external imbalance. To this effect, on-going effort on macro and restoring external competitiveness need to be augmented by steps to improve agriculture productivity, and enhance private sector participation.

Agricultural sector issues

7. **Smallholder agriculture is the most important sector of Ethiopia’s economy.** More than 80 percent of the population lives in rural areas, and their main source of income is agriculture.² The agricultural sector accounts for about 45 percent of GDP, almost 90 percent of exports, and 85 percent of employment. Food security nonetheless remains a key challenge. Over the past two decades, the GoE and its development partners (DPs) have sought to meet this challenge through investments that directly target a relatively large and chronically food-insecure population. While such a strategy is expected to strengthen the livelihoods of food-insecure households, long-term food security cannot be achieved through exclusive attention to the vulnerable. Success will require complementary efforts to enhance agricultural growth, and thereby reduce food prices and diversify rural livelihoods.

8. **Analytical work suggests that agricultural growth and productivity have large potential for improvement.**³ Despite recent positive developments in smallholder agriculture, yields remain low, and many geographical areas have unexploited potential for productivity growth. Greater investment in high-potential areas is required to maintain growth.

² About 25 percent of rural households earn some income from non-farm enterprises, but less than 3 percent of rural households rely exclusively on income from such enterprises. Rural wage employment (in commercial agriculture and in non-agricultural enterprises) is negligible. See World Bank, “Ethiopia, Diversifying the Rural Economy: An Assessment of the Investment Climate for Small and Informal Enterprises,” October 6, 2009.

³ This work includes studies by government agencies at various levels and by other stakeholders on the development of an Economic Growth Corridor (EGC); assessments of “commodity belts” by the Ethiopian Institute of Agricultural Research (EIAR); an analysis of potential growth areas by the International Food Policy Research Institute (IFPRI) and Ethiopian Development Research Institute (EDRI); an analysis of potential growth areas by the World Bank (background to the Country Economic Memorandum); and value chain assessments for cereals, oilseeds, pulses, fruits and vegetables, coffee, and the milk and meat subsectors by (among others) the Food and Agriculture Organization (FAO), the Netherlands Development Organization (SNV) and Business Organization Access to Markets (BOAM); the African Development Bank (AfDB), and the United States Agency for International Development (USAID).

9. **Substantial opportunities exist to add value to agricultural produce on and off the farm.** High import costs result in high prices on most imported processed food, creating opportunities for domestic entrepreneurs to profit from this price differential. Efforts to take advantage of these opportunities will create employment along the agricultural value chain. The demand and supply linkages generated by adding value to agricultural produce would provide alternative sources of incomes for many rural households and reduce vulnerability. Reliable production of increased quantity and quality of raw materials will stimulate private investment in agro-processing.

10. **The shocks and vulnerability facing many Ethiopian farmers need to be addressed.** The exposure to climatic risk is high, especially in light of the low capacity to store water and irrigate. This high risk and vulnerability must be mitigated to secure innovation, investment, and economic growth.

11. **Strengthening the institutions to support agriculture and enhancing the skills and knowledge of male and female farmers will yield significant returns.** The capacity of agricultural institutions is still weak, and the private sector is not yet strong enough to fill the gap. Moreover, there is a considerable gender imbalance. Women are less educated, not equally involved in decision making, and tend to benefit less from the overall development process. Strengthening service provision and addressing gender imbalance will yield high returns.

12. **Reversing environmental degradation increases growth potential.** Average land productivity has increased in recent years, despite problems of environmental degradation in some areas. Due to climate change, extreme weather events are more likely to occur and rainfall and temperatures are becoming more variable. Efforts to reverse environmental degradation (including the loss of soil nutrients and sources of water) could substantially raise agricultural productivity.

13. **The government has a strong commitment to continued agricultural growth.** Between 13 and 17 percent of government expenditure has been channeled towards agriculture (including natural resource management) in recent years—far more than the average for sub-Saharan African countries. While almost half of this expenditure supports chronically food insecure households, investments are also directed towards expanding the extension system or large-scale infrastructure to foster continued growth in agriculture and agro-processing. The government is complementing its efforts in food-insecure areas with an increased commitment to raise national food production by investing in areas with high agricultural potential.

14. **This commitment is reflected in the GoE's poverty reduction strategy, in which agricultural development is at the forefront.** The national strategy for Agricultural Development Led Industrialization (ADLI) is reflected in Ethiopia's poverty reduction strategy—the Plan for Accelerated and Sustained Development to End Poverty (PASDEP)—which states that the key challenge for reducing poverty and providing the foundation for long-term growth is to ensure rapid and sustained increases in land and labor productivity.⁴ The next

⁴ MoFED (2006), "Ethiopia: Building on Progress. A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)," Volume 1, main text, p. 40.

Five Year National Development Plan is expected to continue the strategy for smallholder agriculture by scaling up best practices and with increased participation of the private sector development. In support of the agricultural strategy, the government, DPs, African Union, and private sector and civil society organizations (CSOs) endorsed the Comprehensive Africa Agriculture Development Program (CAADP) Ethiopia on August 28, 2009. The implementation of this compact will be facilitated through a Policy and Investment Framework (PIF) that is currently under development and will include the proposed Agricultural Growth Project (AGP) as one of its main pillars of intervention. The AGP, which is the subject of this PAD, is a clearly specified intervention in targeted geographic areas over five years. It presents the basis for the GoE's Agricultural Growth Program, which is expected to increase in scope and geographic coverage and to last for more than five years.

B. Rationale for the Agricultural Growth Project

15. **The AGP fills a crucial gap in the World Bank's and DPs' assistance to the GoE in the area of rural economic development and food security.** Food security is fundamental to Ethiopia's development and at the core of the government's development strategy, but the effort is incomplete without greater focus on growth in high potential areas. The World Bank and other DPs are committed to support the government and are harmonizing efforts under the following three pillars: sustainable land management; food security and disaster risk management; and agricultural growth. Support under the first and, in particular, and the second pillar is strong. The Sustainable Land Management Program (SLMP) and the PSNP are the respective flagship programs for the pillars through which government and donor efforts are harmonized. However, support for the third pillar, i.e., agricultural growth, is relatively small and DPs' engagement is fragmented into dozens of mostly very small interventions. The AGP provides a basis for strengthened and more harmonized support by the World Bank and other DPs to agricultural growth in Ethiopia.

16. **The AGP initiates a long-term commitment.** The aim is to achieve a greater balance between targeted support to the poorest rural households—the focus of many DPs to date—and support to more dynamic households and enterprises in areas with high potential. AGP also promotes well-coordinated donor support for agriculture, more systematic monitoring and evaluation (M&E), and greater effectiveness in the policy dialogue. The AGP will focus on investments and technologies with a proven track record in the country.

17. **Significant opportunities exist for growth in Ethiopia's smallholder agricultural sector.** A number of currently successful interventions in Ethiopian agriculture can be scaled up. The recent value-chain studies identify a range of factor and market constraints, and also find highly profitable opportunities for smallholders in activities such as oilseeds, pulses, fruits, vegetables, coffee, milk and meat.

18. **The AGP will also promote rural diversification by creating jobs and stimulating small businesses.** High agricultural growth tends to generate demand for farm labor and non-agricultural products and services, which may help poor households that do not participate directly in the AGP. Higher agricultural production will also reduce food prices, which will benefit many poor people, especially urban consumers and net buyers of food in rural areas.

19. **The AGP will also reduce farmers' exposure to unfavorable environmental conditions and associated risk.** Two major threats to Ethiopia's smallholders are losses of crops and livestock during dry spells and the rapid environmental degradation unleashed by unsustainable agricultural practices. The AGP will support investment in watershed management and small-scale water management and irrigation systems (depending on local communities' priorities).⁵ These investments significantly reduce the variability in agricultural production and will enable smallholders to take advantage of new and more profitable opportunities. The AGP's irrigation investments will meet domestic water needs, facilitate home gardening, and reduce the time that women spend carrying water, all of which should strengthen household income potential – particularly by improving women's productivity.

C. Rationale for World Bank involvement

20. **The AGP provides catalytic support for the GoE's efforts to promote agricultural growth.** A financial gap and technical as well as capacity constraints must be overcome for the country to achieve the related PASDEP and MDGs. The World Bank's involvement in the AGP would provide important financial and technical resources to leverage support from other DPs.

21. **The impact of the AGP can offset some of the effects of the global economic crisis.** As discussed in Section I.A. above, Ethiopia and, in particular, its poor population has been negatively affected by the global economic crisis. Investments in agriculture and its up- and downstream sectors can build resilience to prepare for future such events. For instance, increasing agricultural production and value addition creates employment opportunities, and increased supply of agricultural and food products will dampen prices.

22. **Resources available under the Crisis Response Window (CRW) will enable the AGP to remain of significant size despite current financing constraints of the GOE.** Ethiopia's ability to maintain needed public spending on smallholder agriculture is constrained and will remain so for some time, given the macro-economic situation. The additional funds provided through the CRW will enable the government to implement the proposed AGP at a desired size and consequently cover a significant geographic area. The investments in farmer sub-projects (Component 1.2 of the AGP; see below) and rural infrastructure (Component 2) in particular are expected to lead to quite immediate employment and to relatively rapid increases in production, productivity, and market access—hence they have the greatest potential to offset the impact of the global economic crisis. While a number of other DPs are expected to contribute to the proposed AGP over the next few years, the CRW funds at this point ensure extensive coverage even in the first years of implementation.

23. **IDA funding and the World Bank's technical participation serves to trigger other donors' commitment to the agricultural sector and coordinate efforts.** The concept of the AGP has been developed in close cooperation with the government and a consortium of DPs. Slow past progress in implementation and disbursements across many projects and programs, as

⁵ The AGP investments are to be decided by the participating communities and groups, but they are likely to be directed towards water development and management, rural transport, land management, the development of marketing facilities, and the development of alternative energy sources, among other alternatives.

well as an uneven policy dialogue,⁶ have limited agricultural support from DPs. The share of donor aid targeting agriculture and rural development decreased from 11 percent of total (on-budget) donor aid in FY2003 to only 4 percent in FY2008.⁷ Successful interventions exist, but donor support to agricultural and rural growth is too fragmented to mainstream them. The World Bank can play a substantial role in strengthening and harmonizing these efforts, and bringing other partners to a stronger engagement for agricultural growth.

24. **The AGP complements other World Bank initiatives in Ethiopia**, such as the Protection of Basic Services (PBS) initiative. The PBS provides funding at the *woreda*⁸ (district) level for basic public services, including agriculture, by financing delivery of local services. The ongoing PSNP supports household food security for the very vulnerable. The SLMP supports a harmonized approach to better management of land. Each of these programs can achieve better success with the focused attention to agricultural opportunities proposed under the AGP.

25. **Raising agricultural productivity in Africa is one of the Bank's main goals, and agricultural development is a central component of the World Bank's Country Assistance Strategy (CAS) for Ethiopia.** Ethiopia, in its April 2008 CAS, includes increased agricultural productivity as a focus area under Strategic Objective 1 (Fostering Economic Growth). The CAS emphasizes the need for a more comprehensive strategy to enable vulnerable rural people to enter a sustainable path toward better economic lives. The AGP is a major component of such a strategy. It will be important for achieving the CAS objectives of reduced food insecurity, vulnerability, and environmental degradation. The AGP is also designed to contribute to CAS Focus Area 3.3 (Support Greater Economic Engagement of Women and Youth).

26. **The World Bank is already well engaged in providing the technical assistance, policy dialogue, and lending support needed to make the AGP successful.** Ongoing projects have included efforts in rural capacity building, agricultural training and research, irrigation and drainage, fertilizer support, and sustainable land management, as well as programs that deliver resources directly to communities through local governments—for example, the Pastoral Community Development Project (PCDP). The AGP will bring this experience to bear in a focused effort in high potential areas.

D. Higher-level objectives to which the project contributes

27. **The higher-level goal of the AGP is to accelerate broad-based sustained agricultural growth that will create employment and reduce poverty and food insecurity.** The AGP

⁶ Examples of unsuccessful or only partially successful donor engagement in agricultural sector reform include the agricultural component of the PRSC, the seed industry, and the limited engagement of the private sector in agricultural services and markets.

⁷ Support for agricultural development has been relatively low. In a recent Development Assistance Group (DAG) survey of the 18 biggest donors to Ethiopia, 14 ranked “Rural Economic Development and Food Security” as a “5” (“highest priority”), with the remaining donors ranking it “4.” The same survey indicated that 25 percent of the contribution of these donors targeted RED&FS, the vast majority going to food security.

⁸ *Woreda* (also spelled *wereda*) is an administrative division of Ethiopia (managed by a local government), equivalent to a district. It is composed of a number of *kebeles*, or neighborhood associations, which are the smallest unit of local government in Ethiopia.

contributes to the higher-level goal of sustainable food security by developing untapped potential of well-endowed areas.

28. **The AGP also aims to help achieve the government’s poverty reduction strategy and the MDGs.** The AGP will constitute a major component of the government’s next Five Year National Development Plan and will contribute to the first MDG addressing hunger, malnutrition, and poverty. The environmental focus of the AGP will support MDG 7 by rehabilitating degraded land and making agriculture more productive and sustainable. Finally, the AGP contributes to MDG 8 on partnerships and the Paris Declaration on Aid Effectiveness through the harmonized donor framework developed for the AGP.

29. **The AGP contributes directly to the goals of CAADP in Ethiopia.** The government and its partners—the African Union, donors, private sector, and CSOs—have made great strides in formulating a comprehensive agricultural development program for Ethiopia. This program is a major milestone for the various stakeholders to join forces and strengthen Ethiopia’s agricultural and rural development strategy. The AGP will ensure that the strong commitment to achieve progress in agriculture will manifest itself through resource mobilization for specific interventions and their implementation. This effort, together with the comprehensive design of the AGP, will maximize the ability of the AGP to deliver sustainable results.

II. PROJECT DESCRIPTION

A. Lending instrument

30. **The AGP is proposed** as a Specific Investment Loan (SIL) over five years, covering a selected number of woredas in four regions of the country. It is expected that over the long term the AGP will expand to other high-potential areas, with support through follow-on operations by a consortium of DPs.

B. Project Development Objective and key indicators

31. **Project Development Objective.** The Project Development Objective is to increase agricultural productivity and market access for key crop and livestock products⁹ in targeted woredas with increased participation of women and youth.¹⁰

32. **Key indicators.** The key outcome indicators will be monitored for the average household as well as separately for female- and youth¹¹-headed households. The indicators are:¹²

- The percentage increase in agricultural yields of participating households (an index of crops and livestock products).

⁹ Key commodities are defined as those making up the bulk of current agricultural commodities in the selected woredas and including the ones selected under the agribusiness value-chain activity.

¹⁰ Landless are a particularly vulnerable group of youth.

¹¹ The official government definition of youth is from 13 to 34 years of age.

¹² An impact evaluation will be conducted that will assess the increase achieved by the end of implementation relative to the baseline in the area selected for intervention and relative to areas without the intervention.

- The percentage increase in total marketed value of targeted crops and livestock products per participating household.

C. Project components

33. **Intervention areas and woreda selection.** The AGP will follow a decentralized and integrated approach, and will focus on selected clusters of woredas. This focus will ensure significant impact given limited resources. The AGP focuses on areas that are relatively moisture- and food-secure and that have considerable potential for agricultural growth, given the right support.¹³ The 83 AGP woredas are spread over 20 clusters in the four regions of Amhara, Oromiya, Southern Nations, Nationalities, and Peoples Region (SNNPR) and Tigray, and include about 2,108 kebeles. A list of the AGP woredas is presented in Attachment 2 to Annex 4.

34. **Commodities.** An initial list of key commodities using a value-chain approach has been identified for each of the proposed AGP clusters and regions, based on the following criteria: (a) importance of potential marketable production; (b) number of farmers involved in producing the commodity; (c) capacity to increase household profitability; (d) potential to increase productivity/production in a sustainable manner and reduce production risk; (e) large difference between farm-gate and regional market prices; (f) potential for labor absorption in the value chain; (g) potential for foreign currency earning or import substitution; and (h) spillover effects into neighboring woredas. The preliminary list of commodities is available in the project files. Participating producers will be free to select products other than those of concentration in their areas, but special attention, including investments in marketing and value addition, will focus on the commodities of concentration.

35. **Beneficiaries.** The main target group of the AGP is the small- and medium-scale farmers in the selected woredas who crop an average area of somewhat less than 1 hectare (ranging between 0.25 and 2.3 hectares). The total population in the 83 woredas is 9.8 million people in an estimated 2 million households. Women and young people will be encouraged to participate. Other beneficiaries of the AGP, whose participation would also benefit smallholders, are large commercial farms, farmer organizations, traders, agro-processors, and others.

36. **Planning and implementation.** Most activities supported by the AGP will be based on demand from farmers, their groups, associations, cooperatives, community institutions, and other private sector beneficiaries. A focus on specific value chains will channel activities toward products with identified markets. The AGP is designed to:

- Provide support to farmers and the private sector using a *market-oriented* approach to strengthen value chains of identified commodities with observed demand.
- Support the government's *decentralization* agenda by enhancing participation of farming communities in planning and implementing kebele/woreda-level investment programs, with due attention to including women and youth in the development process.

¹³ For a list of the selection criteria and their definition see Annex 4, paragraph 2. In addition to these criteria, woredas receiving support from the PSNP have been excluded with the exception of Tigray as this region has only 3 non-PSNP woredas. In these 5 PSNP woredas of Tigray, kebeles receiving support from the PSNP are excluded from AGP support.

- Provide *performance-based* support to farmer organizations and other private sector stakeholders as well as to kebeles and woredas against clearly agreed criteria.
- Support an *enabling policy and institutional environment* that promotes innovation for sustainable agricultural growth.

37. **The three components facilitate: (i) adoption of improved technologies; (ii) ease of marketing; and (iii) implementation.** Component 1 (Sub-component 1.1) will strengthen institutions to deliver improved services to farmers in targeted communities. Sub-component 1.2 will be based on sub-projects prepared by farmer groups, including women and youth groups, formed around common interests to introduce innovative practices to improve agricultural productivity and enhance value addition. Sub-component 1.3 will identify market opportunities and stimulate linkages of agro-enterprises and cooperatives with domestic, regional, and international markets. Activities under 1.3 will be handled at the regional level as this requires working with stakeholders somewhat higher up in the agricultural value chains, and farmer groups will be assisted to integrate with the agro-enterprises supported under component 1.3. Component 2 will focus on community-based participatory planning to support investments in irrigation, access roads, and markets. The bottom-up planning process will result in kebele-level and subsequently woreda-level integrated plans for AGP that will complement the woreda's other budget allocations.¹⁴ Component 3 addresses management of the project and monitoring and evaluation of activities.

Component 1: Agricultural Production and Commercialization (US\$ 118.3 million; IDA/pooled: US\$ 67.4 million; USAID: US\$ 45.0 million)¹⁵

Sub-component 1.1 Institutional Strengthening and Development (US\$ 37.6 million)¹⁶

38. ***Establishment and Strengthening of Agricultural and Rural Development Partners Linkages Advisory Councils (ARDPLACs).*** The ARDPLACs are existing multi-stakeholder rural councils chaired by the MoARD and the respective line agency at the regional, zonal, and woreda level. Their objective is to promote a participatory approach to service delivery and agricultural development by facilitating interaction of relevant stakeholders. AGP, adopting a modified version of current guidelines, would extend the ARDPLACs to all AGP woredas, support the already existing ARDPLACs at higher levels, and expand membership to include all key rural development stakeholders, including the private sector.

39. Strengthening of key public advisory services. The organizations to be strengthened would include:

- (a) *Agricultural extension service*, including support for farmer training centers (FTCs), provision of training and mobility for development agents (DAs) as well as subject matter specialists (SMSs), and access to improved information technology (IT). These activities

¹⁴ This planning and budgeting process would be aligned with or integrated into the new national system of local-level planning that is supported under the AGP.

¹⁵ Figures shown are costs including contingencies; the remainder between total and the sum of DPs contribution are government and beneficiary contributions. For more details see Annex 5.

¹⁶ Total costs; for breakdown see Annex 4 and Annex 5.

are already supported under existing initiatives, including those of the GOE, and the additional resources available under AGP will bring the level of service up to the standard required to support accelerated innovation and growth.

(b) *Soil fertility management services.* The central and the regional soil testing laboratories will receive equipment, chemicals, and training to guide recommendations on use of fertilizer and to assist with the reclamation of problem soils.

(c) *Animal health services* for improved delivery of animal health care and disease surveillance. The AGP will help to equip the regional animal health laboratory, woreda veterinary clinics, and kebele animal health posts; upgrade skills of professional staff; and strengthen community-level outreach by training a group of community animal health workers (CAHWs) identified by the participating communities.

40. ***Establishment and strengthening of farmer organizations.*** Activities to be supported will include:

(a) *Establishment and strengthening of new and existing voluntary informal farmer groups* formed by men, women, and youth to address a shared interest, such as the production of a particular commodity (cereals, oil crops, legumes, vegetables, milk, and seeds), water use, marketing, and credit.

(b) *Capacity building for farmer organizations.* Based on the interest and vision of informal farmer groups, the woreda-level cooperative promotion agencies will support them to strengthen their organization, register as cooperatives, and possibly to federate. Registration is required under Ethiopian law in order for groups to undertake many of the activities envisaged within the AGP.

(c) *Capacity building of agencies supporting farmer organizations.* This support, targeted mainly to the woreda-level agencies, will develop their capacity and skills to train informal groups and farmer organizations. This activity will be coordinated and partly provided by the regional and the federal-level Cooperative Agencies.

Sub-component 1.2 Scaling up best practices (US\$ 29.7 million)

41. The Community-level Participatory Planning (CLPP) Manual, the Scaling up Best Practices Manual, and the Farmer Innovation Fund and Adaptive Research Guidelines along with the supporting extension guidelines (referred to under Sub-component 1.1), will guide the planning and implementation of activities. Specific activities to be supported will include:

42. ***Identification of best practices and preparation of sub-project proposals.*** The extension service, in consultation with key stakeholders will identify improved technologies and management practices that respond to women, men, and youth farmers' stated needs as expressed in the investment sub-project proposals. The improved technologies for production will show adequate profitability and employ integrated approaches to nutrient, pest/disease, water, and land management.

43. The CLPP Manual describes the process for screening, technical appraisal, and approval of sub-projects at the woreda level.¹⁷ Community-based crop and forage seed producer groups producing improved seeds will receive particular attention from extension agents and advisers.

44. ***Implementation support for scaling up best practices.*** Specific activities to be supported will include:

(a) *Extension support.* The strengthened extension service will provide training for group members, help participating farmers to plan and manage on-farm demonstrations of best practices, and operate demonstration sites. The extension service would also help to link interested groups with work to strengthen value-chains under Sub-component 1.3.

(b) *Support to innovation and adaptive research.* This activity, supported through the Farmers' Innovation Facility (FIF), will build the capacity of farmer groups to identify innovations from different sources, help them participate in experiments to validate and refine those innovations, and scale up innovations. Small grants will be available for a broad range of production, post-harvest, and value-adding activities. The FIF will follow the same preparation, screening, and approval steps as described under the CLPP Manual and the "Scaling up Best Practice" Manual.

Sub-component 1.3 Market and Agribusiness Development (US\$ 51.0 million)

45. Interventions under this sub-component will address the following:

46. **Agribusinesses along value chains of selected commodities are strengthened.** Development of selected value chains will be supported under funding from USAID as a parallel intervention within the AGP. The specific activities to be funded by USAID will include: (a) establishment of an innovation and demonstration fund; (b) private sector capacity building and technical assistance; (c) public sector capacity development for service provision; (d) promotion of linkages to credit, including a credit guarantee scheme; and (e) sectoral analysis of constraints and value-chain analysis.

47. **Supply systems of key inputs (improved seed and livestock breeds) strengthened.** This activity has the following two focal areas:

(a) *Seed sector support.*¹⁸ This activity complements community-based seed production, supported under Sub-component 1.2, and seed-related activities supported under the

¹⁷ The CLPP manual has already been discussed with farming communities and tested in two field locations. Participating groups would be trained in the CLPP process and provided technical as well as logistical support for preparation of sub-project proposals.

¹⁸ AGP support for community-based crop and forage seed production, mainly to meet the demand for seed of improved varieties of self-pollinated crops already released for cultivation would be channeled through sub-project proposals under 1.2. In addition, under the value chain activity of this sub-component, need-based production of seed for specific commodities may also be supported.

agribusiness activity of this sub-component (1.3). The incremental activities to be financed by USAID through a parallel mechanism are identified in several background analyses.¹⁹

(b) *Livestock breed improvement*. This activity would improve the genetic background of livestock (especially dairy cattle) in the AGP woredas and beyond. The efforts will complement and not duplicate those supported by the East African Agricultural Productivity Program, a regional agricultural technology intervention to which Ethiopia is a partner.

Component 2: Small-scale Rural Infrastructure Development and Management (US\$ 142.1 million; IDA/pooled: US\$ 121.3 million)

48. The AGP will finance the construction, rehabilitation, and/or improvement of small-scale infrastructure that contributes to increased productivity. These investments are also intended to improve mobility and access to markets.

49. Investment needs will be identified following the procedures in the CLPP Manual. Investments must meet “public good”²⁰ criteria to qualify for financial support. Investment proposals benefiting fewer than 10 households will be eligible for technical assistance, but not funding.

50. The government has a large, ongoing program to develop a network of rural roads linking (kebele) production areas to (woreda) agricultural markets. For this reason, the AGP need not finance rural roads (other than feeder roads) and markets requiring large investments under Component 2. AGP funds will be available to ensure that critical investment gaps are filled in a timely manner to ensure adequate returns from investments in other components or sub-components of the AGP.

Sub-component 2.1: Small-scale Agricultural Water Development and Management (US\$ 75.8 million)

51. Investments under this sub-component will include: (a) development and management of small-scale and micro-irrigation (SSI) infrastructure and (b) implementation of soil and water conservation practices. The AGP will support the provision of irrigation water and related services on about 18,000 hectares (of which about 13,000 hectares are under SSI schemes and the remaining 5,000 hectares are under micro-irrigation technologies) and the implementation of soil and water conservation practices over an area of 75,000 hectares. The following activities are envisaged to be financed: (a) rehabilitation and/or improvement of traditional SSI; (b) establishment of new SSI and micro-irrigation schemes, including micro-dams, gravity and pump diversions, and groundwater development (shallow wells); (c) implementation of agricultural water management; and (d) capacity building to assist service providers to render appropriate and timely services to farmers, including assistance to beneficiaries to whom

¹⁹ This includes the formal seed sector study supported by the RED&FS Trust Fund, work by the Embassy of the Kingdom of the Netherlands (EKN), FAO, the International Development Law Organization (IDLO), and a strategic study supported by the Bill and Melinda Gates Foundation.

²⁰ As long as such investments benefit at least 10 households.

responsibility for operations and maintenance (O&M) is delegated. The AGP will also support the provision of startup spare parts and hand tools that are important for O&M by the community.

52. The AGP will finance demand-driven interventions for water harvesting, lifting, and application technologies, including: (a) construction of ponds, tanks, and hand-dug wells; (b) supply of portable diesel irrigation pumps, mechanical pumps, small-scale drip systems, and similar technology for about 200 selected demonstration sites; (c) establishment of groundwater recharge structures; (d) capacity building, including training for farmers and SMSs in water harvesting and micro-irrigation technologies; and (e) linking farmers to credit services and other input providers. While the beneficiaries themselves are expected to make maximum contributions towards realization of such activities, the AGP would finance the purchase of materials required for constructing water storage and conveyance facilities, water lifting units, and irrigation equipment. The AGP will also finance the skilled labor required and provide start-up spare parts and hand tools that are important for O&M.

53. The AGP will enhance the capacity for agricultural water management among relevant institutions and Irrigation Water Users Groups/Associations (IWUG/As).²¹ Interventions will facilitate improved application and scheduling of water and better agronomic practices (including land preparation, integrated moisture and nutrient management, and integrated pest management) in existing and new SSI and micro-irrigation schemes. The activities to be financed will include: (a) on-farm demonstrations; (b) training in methods of managing available water resources, settling disputes, and record-keeping; (c) providing simple equipment to help monitor soil moisture and evaporation at the field level; and (e) building the capacity of farmers, DAs, and woreda/zonal/regional and federal level SMSs in improved irrigation water management and agronomic practices. Financing for activities under this category will be fully borne by the AGP.

54. The AGP will support sub-projects to improve soil fertility and soil moisture within the larger framework of sustainable watershed development and management. Planning for these sub-projects will be based on the watershed rather than the individual plot. The AGP will also finance gully rehabilitation, area closure, planting of multipurpose trees, and groundwater recharge interventions in areas where groundwater development is being undertaken. The financing arrangement (cost sharing) and implementation of activities under this category will follow the “Community watershed management guideline” included in the Project Implementation Manual (PIM).

Sub-component 2.2. Small Scale Market Infrastructure Development and Management (US\$ 45.5 million)

55. This sub-component strengthens rural market infrastructure to enhance the performance of input and output markets and linkages to agro-processing. The sub-component will finance: (a) construction and/or maintenance of small-scale feeder roads, footbridges, and roadside

²¹ A proposal to approve the constitution of water user association is currently under review by the GoE. Based on the timely approval of this law, a formation and training of water user associations would be anticipated under this project. However, if the law does not get approved early, the project would instead support formation and strengthening of informal irrigation water user groups.

drainage; (b) development and management of market centers; and (c) institutional development and capacity building at the woreda, kebele, and community levels. The AGP will support construction and/or rehabilitation of about 800 kilometers of critically important, small-scale feeder roads needed to fulfill AGP objectives (and not otherwise included in the road plan) and the establishment of about 40 primary market centers, 20 secondary market centers, and about 8 terminal market centers.

56. The project will support: (a) construction, rehabilitation, and/or maintenance of small-scale rural feeder roads, roadside drainage, and footbridges concentrated in areas where a critical mass of rural citizens will benefit; (b) establishment and training of road maintenance committees; (c) provision of start-up spare parts and hand tools important for O&M; and (d) linkages to credit services and other input providers to introduce intermediate means of transport. Given that resources under the AGP for small-scale rural roads are relatively small compared to what is envisaged under the government's Universal Rural Access Program (URAP), the AGP will be well aligned with government plans in the road sector. To that effect, the Ethiopian Roads Authority (ERA), Regional Rural Roads Authority, and woreda office of rural roads will be closely consulted and involved under the AGP. The AGP will also try to identify possible cost-sharing arrangements that could be agreed upon with participating woredas to ensure that road authorities give priority to AGP woredas when URAP is rolled out. The financing arrangement with beneficiaries under this category of activities will follow the GoE's guidelines under the URAP program—also included in the PIM.

57. The AGP will support the modernization of agricultural marketing through establishment or upgrading of primary and woreda-level markets. Potential activities to be supported include: (a) construction and improvement of community warehouses and market sheds, market site paving, and provision of water supply and sanitation services at market centers; and (b) establishment and training of market center management committees. Implementation of these activities and financing arrangement with their beneficiaries will follow procedures detailed in the PIM.

Component 3. AGP Management and Monitoring and Evaluation (US\$ 18.8 million; IDA/pooled: US\$ 9.3 million; USAID/UNDP/parallel: US\$ 8.4 million)

Sub-component 3.1: AGP Management at the Federal, Regional, Zonal, and Woreda levels (US\$ 11.8 million)

58. The AGP will be mainstreamed as much as possible within the existing GoE structure. An institutional assessment was undertaken by MoARD, the Bureaus of Agriculture and Rural Development (BoARDs), and the Canadian International Development Agency (CIDA).²² The Bank team assessed the procurement and financial capacity of the implementing institutions. These assessments suggest that the capacity to implement the AGP is somewhat weak. Therefore Sub-component 3.1 includes a broad agenda for strengthening implementation capacity and for communicating lessons learned in the course of implementation.

²² AGP Institutional Capacity and Needs Assessment of Implementing Agencies, Addis Ababa, January 2010.

Sub-component 3.2: Monitoring and Evaluation (US\$ 7.0 million)

59. A system to establish effective M&E and create a learning environment is an important element of the AGP design. The specific activities to be covered include:

(a) *AGP outcomes and impact.* The Central Statistical Authority (CSA) will collect data for the three evaluations.²³ The analysis will be undertaken through parallel funding under the Ethiopia Strategy Support Program (ESSP) Phase II.²⁴ A rapid *baseline survey* was conducted to refine the AGP's design by identifying the specific conditions for agricultural growth in AGP target woredas, with particular emphasis on the role of women and youth.

(b) *AGP inputs and outputs.* The AGP M&E system will include a simple and user-friendly system for monitoring implementation progress (inputs and outputs), for which reporting formats are being developed.

(c) *Participatory M&E, social accountability, and internal learning.* Participatory M&E by beneficiaries and social accountability activities will ensure that beneficiaries are assessing their progress towards their objectives and have a productive dialogue with service providers (DAs and line ministries). The CLPP Manual—an element of the PIM—includes the key design parameters of the participatory M&E and social accountability systems to be introduced under AGP and will be updated and improved as the AGP is implemented. Additional activities will be undertaken through USAID parallel funding, including stocktaking, case studies, participatory impact assessments,²⁵ related thematic studies (for example, cost-benefit analysis of irrigation sub-projects, impact of certain AGP interventions on women), and dissemination and dialogue on the findings.

D. Lessons learned and reflected in the project design

60. **Many of the design features and activities of the AGP build on past and ongoing projects in the agricultural sector in Ethiopia.** Specifically for Component 1, the institutional strengthening and development under Sub-component 1.1 including the support of the

²³ The CSA is the only agency qualified to undertake national surveys in Ethiopia. In addition, the development of the survey methodology is likely to require raw data from several prior CSA surveys, both for selecting sample kebeles and for calculating household sample size. The types of data needed to design the survey are made available only for use in surveys carried out by CSA. Based on this justification, an exception to the eligibility criteria under paragraph 1.11 of "*Guidelines: Selection and Employment of Consultants by World Bank Borrowers*" will be sought.

²⁴ ESSP Phase II is a collaborative program of capacity building, research, policy analysis, and knowledge dissemination by IFPRI and EDRI. The program is supported by several donors (USAID, CIDA, the UK Department for International Development, and Irish Aid).

²⁵ Based on the successful model led by MoARD through the Livestock Policy Forum, participatory assessments of specific activities will be undertaken to measure the effects of certain interventions and to contribute, as agreed, to formal guidelines and best practice policies. Interventions for which participatory assessments caused MoARD to adopt policy and practice guidelines include Emergency Livestock Vaccination, Livestock Fodder, and Emergency Livestock De-stocking. The number of impact assessments undertaken will depend on demand and funding, but an initial program target would be 20. Although institutional details remain to be worked out, it is agreed that the Federal AGP Steering Committee will provide strategic advice and oversight.

ARDPLACs and for agricultural extension is a continuation and expansion of the ARTP and, in particular, the RCBP. The scaling up of best practices under Sub-component 1.2 is a modification and expansion of similar support provided under the RCBP. The marketing and agri-business development under Sub-component 1.2 builds on the operations such as Business Organization Access to Markets (BOAM) Project supported by the Embassy of the Kingdom of the Netherlands (EKN) and the USAID-supported Agricultural Trade and Export Promotion (ATEP) Project. Similarly, the interventions under Component 2 build on past or ongoing projects such as, in particular, the IFAD-funded Participatory Small-Scale Irrigation Development Program for the small-scale irrigation activities or the SLMP and several other operations for the water and soil conservation measures. A more extensive list of past and ongoing operations that the AGP draws on is provided in Annex 2. The AGP also draws on a rich body of analytical work on agricultural growth in Ethiopia²⁶ and on global lessons highlighted in the Bank's *World Development Report 2008: Agriculture for Development*.²⁷

61. Agricultural growth requires a strong private sector and assessment of changing demand. Many efforts to shift Ethiopian agriculture from a smallholder, subsistence base to commercial agriculture have focused on production, rather than marketing. Important global lessons for sustaining agricultural growth—including lessons from Bank-supported projects in many countries²⁸—emphasize the need to link with markets and the private sector. Accordingly, the AGP supports private–public partnerships that can connect smallholders with agricultural markets.

62. Local solutions and innovations succeed better than do centralized ones. The AGP supports the government's decentralization strategy by empowering farming communities to participate in determining the kebele/woreda-level investment plans. The AGP also gives attention to including women and youth in the development process so that they may contribute more fully to agricultural growth.

63. Selected technologies must address identified market demand and exhibit resilience to environmental conditions. The technologies promoted, especially those leading to intensification of production systems, must conserve natural resources and permit adaptation to climate change. In response to these lessons, the AGP supports a competitive process to fund participation by the full range of stakeholders in research and development.

²⁶ See, for instance, World Bank (2006), Ethiopia: Policies for pro-poor agricultural growth (unpublished) and Stefan Dercon, Ruth Vargas Hill, and Andrew Zeitin, "In Search of a Strategy: Rethinking Agriculture-led Growth in Ethiopia," synthesis paper prepared for a study on Agriculture and Growth in Ethiopia (May 2009, Oxford University).

²⁷ *World Development Report 2008*, Chapter 5 (Bringing agriculture to the market) and Chapter 6 (Supporting smallholder competitiveness through institutional innovations) in Part II, "What are effective instruments for using agriculture for development?" (Washington, DC: World Bank, 2007).

²⁸ Zambia Agriculture Development Support Program (Report No. 35804-ZM, April 2006); Nigeria Commercial Agriculture Development Project (Report No. 46830-NG, December 2008); Agricultural Technology Transfer Project in China (Report No: 29785-CHA, April 2005); Vietnam Agriculture Competitiveness Project (Report No: 44575-VN, August 2008); and Colombia Second Rural Productive Partnership Project (Report No: 39472-C0, July 2007).

64. **Investments in small-scale infrastructure under the AGP build on lessons from similar projects in Ethiopia and elsewhere.** Lessons include the need to: (a) provide support for well-planned, demand-based interventions that are consistent with local capacity and (b) strongly emphasize capacity building for stakeholders as well as facilitation with financial management and procurement to ensure sustained benefit, equitable participation and adequate environmental and social safeguards.

65. **Implementation capacity among service providers (including extension), in financial management, and in procurement must be enhanced.** Accordingly, the AGP supports the strengthening of the GoE's capacity in these areas through a number of interventions, ranging from hiring critical staff and providing transport and office equipment, to providing support for formal and informal training, workshops, on-the-job training, training of trainers, and access to expert advice.

66. **A well-functioning M&E system is necessary to assess the impacts of interventions.** The lack of qualified M&E staff, nationally and locally, limits effective M&E in Ethiopia. The AGP will ensure that M&E personnel at all levels are trained appropriately, including in computer skills and use of the management information system (MIS). It will also provide appropriate refresher courses and punctual technical assistance to support supervision.

67. **Actions are required to strengthen the implementation capacity of MoARD.** Projects implemented by MoARD have historically struggled with high turnover of staff due to low pay, and, consequently, delays in procurement as well as in submission of quarterly financial reports and yearly audit reports. To tackle these weaknesses the following actions have been incorporated in the design of the AGP:

- Public employees responsible for finance and procurement will be included in World Bank operations training and project-specific training so that they may fill in if project staff are not available.
- Experienced accountants as well as procurement specialists will be recruited at the federal and regional levels for preparing quarterly financial reports and for procurement, respectively. Intensive training, including training in preparing Interim Financial Reports (IFRs) and in World Bank procurement procedures, will be provided.
- A semi-annual interim audit will be conducted by external auditors. These semi-annual audits will feed into the annual Audit Reports.

E. Alternatives considered and reasons for rejection

68. The alternative formulations considered for the AGP were all related to different aspects of the project's design, as summarized below.

69. **Adaptable Program Lending (APL) versus Specific Investment Lending (SIL).** An APL was considered in recognition of the need for long-term engagement to foster agricultural growth. The standard SIL instrument is adequate for this stage, and can be followed by additional financing or repeater projects as needed.

70. **A sub-sectoral versus a broader, more integrated approach.** The team discussed at considerable length the scope of the operation, and whether to take a broad approach or focus more narrowly on thematic constraints, such as; e, g., water resource management and irrigation. An integrated design was considered best adapted to Ethiopia's vastly differing local conditions. The broader option gives greater decision-making scope to farmers, local communities, and local governments. It also helps farmers take up opportunities afforded by the expanding demand for food and agricultural commodities that will result from support all along the agricultural value chains. The AGP's design, although broad, is also selective, and excludes investments and services covered by other partners and/or complementary interventions or deemed overly complex. For example, a land administration activity was considered but rejected because this kind of intervention is better addressed through a separate intervention (such as the government's current titling effort).

71. **Focus on adoption and scaling up of best practices versus generation of new technologies.** Other programs, such as the East Africa Agricultural Productivity Program (EAAPP), the Rural Capacity Building Project (RCBP), or the government's regular investments in the national agricultural research system address the generation of technologies.

72. **Sector-wide approach versus a sector investment project.** The AGP serves to rationalize the current highly fragmented interventions, but is presented as a SIL, rather than a DPO. A more fully-fledged sector-wide approach was considered, particularly given recent encouraging institutional changes with the establishment of the Rural Economic Development and Food Security (RED&FS) Sector Working Group (SWG) and the CAADP process. However, these institutions that would foster a more effective dialogue are still at an early stage of development. The proposed activities can best be better addressed through specific lending operations.

73. **Geographic and commodity focus versus general approach.** The AGP could have been implemented in all regions and districts that do not receive substantial resources from the Food Security Program, and covered a wider menu of commodities. A more focused approach was selected to reduce complexity in the initial stage. The focus on specific geographic areas that have a comparative advantage in agricultural development supports the government's growth corridor approach. Most of the woredas targeted for AGP are part of identified growth corridors. Commodities will be selected for concentration based on the agricultural potential identified in growth corridor assessments.

III. IMPLEMENTATION

A. Partnership arrangements

74. **Overview.** Various partnership arrangements were formed and are expected to continue during implementation, including partnership arrangements (a) among federal as well as regional/local government institutions; (b) among non-governmental organizations (NGO); and (c) among DPs.

75. **Partnerships among government institutions.** At the federal level these partnerships include the arrangements between MoARD, MoFED, CSA, the Federal Cooperative Agency

(FCA) and the Ministry of Trade and Industry (MoTI) and ERA. Similar arrangements are being established at the regional and local level. Partnership arrangements with MoARD, CSA, and FCA are already established, while those with MoTI need to be strengthened.

76. **Partnerships with private sector and CSOs.** Consultation workshops were also held with representatives of the private sector and CSOs. The workshops elicited valuable comments and created awareness about the proposed AGP. The AGP design promotes multi-stakeholder networks at all levels as well as commodity-specific platforms for improving productivity and growth.

77. **Cooperation with DPs.** Encouraging partnership arrangements have been established among DPs, as demonstrated by the active participation of key DPs, including CIDA, FAO, the EKN, the United Nations Development Program (UNDP), and USAID, in the various preparation support missions and in regular weekly meetings of the Agricultural Growth Technical Committee (AG TC) of the RED&FS Sector Working Group. The AG TC has overseen the design of the AGP. Evidence of effective partnerships may also be seen in the financial and technical support from the UNDP- and Government of Spain-funded UNDP AGP Trust Fund, the EKN-funded and World Bank-executed RED&FS Trust Fund, and the technical support from FAO. Discussions have been initiated with other DPs, including the AfDB, the Department for International Development (DfID), European Commission (EC), International Fund for Agricultural Development (IFAD), Japan International Cooperation Agency (JICA), the Swedish International Development Cooperation Agency (SIDA), and Spain. They are supportive of AGP and are considering how to best coordinate their activities with the AGP or support it directly.

78. **Financing Plan within the partnership.** The summary financing plan of the AGP for funding resources from all DPs, i.e. excluding government and beneficiary contributions is presented below. A more detailed financing plan is shown in Annex 5. As mentioned above, the AGP is scalable and DPs including CIDA have indicated interest to support the AGP through both the pooled and the parallel funding mechanism. Another potential source of additional funding is the Global Agriculture and Food Security Program (GAFSP). Search for additional funding, to fill the existing financing gap and to expand the geographic scope of the AGP, will continue throughout implementation.

Summary AGP Development Partner Commitments by Component and Funding Channel

Project component Sub-component	Funding sources (US\$ million)			Share (%)
	Pooled	Parallel	Total	
1. Agricultural production & commercialization	67.4	45.0	112.4	44.4
1.1 Institutional strengthening and development	34.5		34.5	13.6
1.2 Scaling up best practices	26.9		26.9	10.6
1.3 Market and agri-business development	6.0	45.0	51.0	20.1

Project component Sub-component	Funding sources (US\$ million)			Share (%)
	Pooled	Parallel	Total	
2. Small-scale rural infrastructure dev. & mgmt.	121.3		121.3	47.9
2.1 Agricultural Water Infrastructure dev. & mgmt.	75.8		75.8	29.9
2.2 Market Infrastructure development and management	45.5		45.5	18.0
3. AGP Management and M&E	9.3	8.4	17.8	7.0
3.1 AGP management	7.6	3.1	10.7	4.2
3.2 Monitoring and evaluation	1.7	5.3	7.0	2.8
4. Unallocated	2.0		2.0	0.8
Total	200.0	53.4	253.4	100.0

Note: Including contingencies. Pooled funding includes US\$ 150 million from IDA plus a funding gap of US\$ 50 million expected to be filled by CIDA and other DPs. Parallel funding includes the identified parallel resources to date, i.e., the UNDP AGP Trust Fund and the expected commitment from USAID of up to US\$ 50 million.

B. Institutional and implementation arrangements

79. Implementation of the AGP will rely on existing GoE structures, with the exception of parallel funding through USAID that will be channeled through contracted implementation firms.²⁹ UNDP support will also be implemented in parallel through an already existing UNDP AGP Trust Fund. Implementation will be decentralized with Regional and Woreda Bureaus/Offices of Agriculture and Rural Development in Oromiya, Amhara, SNNPR and Tigray assuming primary responsibility for execution of the program. AGP is a federal support to selected areas of high agricultural potential with the ultimate aim of stimulating agricultural growth and triggering rural transformation in the country. Accordingly, overall responsibility for the AGP lies with the Federal Ministry of Agriculture and Rural Development (MoARD). Federal implementing agencies will provide guidance and support to regions, spearhead most institutional capacity building activities and undertake monitoring, evaluation and communication activities. AGP's federal implementing institutions include various directorates of MoARD, the National Center of Artificial Insemination; and, (for some discrete specialized activities) service providers such the FCA, the National Soil Laboratory and the Central Statistics Agency.

80. The implementing agencies at the Regional level include various departments within the Bureaus of Agriculture and Rural Development (BoARDs), Regional Soil Laboratories, the Rural Roads Authority of each region, Bureaus of Water Resource Development and Regional Livestock and Marketing Agencies where these are separate from the BoARDs. Implementation of AGP at the regional level will also be supported by relevant service providers and institutions

²⁹ Activities related to agribusiness development along selected agricultural commodity value chains, strengthening of the seed supply system and internal learning through participatory impact assessments will be implemented by contracted technical firms that would carry out their activities under the AGP oversight and coordination mechanisms.

collaborating with the contractors implementing activities funded by USAID. There will be similar implementing agencies at the zonal and woreda levels. Details of the implementation arrangements by type of intervention are provided in Annex 6.

81. Given that AGP will be implemented by multiple agencies, strong oversight and coordination mechanisms will be established as described in Annex 6 below.

C. Monitoring and evaluation of outcomes/results

82. **Objective, principles, and structure of the M&E system.** The AGP's M&E activities will: (a) generate information on progress, processes, and performance; (b) analyze and aggregate data generated at various levels (regions, woredas, kebeles, and sub-kebeles) to track progress and monitor process quality, AGP impacts, and sustainability; and (c) document and disseminate key lessons to users and stakeholders. The system will ensure that: (a) clear responsibilities and procedures for M&E are established; (b) M&E capacity building is emphasized from the start and throughout implementation; (c) the M&E system functions in a timely manner; and (d) data are collected and used starting from a baseline before implementation.

83. **The results framework summarizes the overall AGP outcomes and sub-outcomes.** The results framework and approaches to monitoring of inputs and outputs are detailed in Annex 3 below.

Evaluation of outcomes and impact

84. **Rapid baseline survey.** A rapid baseline survey was conducted to inform the overall AGP design, provide information on the role of women and youth, and collect information on the preliminary list of indicators to establish a preliminary baseline and target values for the mid-term and end of the project.

85. **Baseline, mid-term impact evaluation, and final impact evaluation.** The more detailed baseline survey is planned before the AGP launch, mid-term impact evaluation in FY3, and a final impact evaluation in FY5. Data for the baseline survey, mid-term impact evaluation, and final impact evaluation will be collected by CSA. The ESSP Phase II will complement the work of CSA. In particular, ESSP will develop the sampling process, develop the survey instrument (building on an existing CSA instrument such as the Agricultural Sample Survey), analyze the data, and write the impact evaluation reports.

Participatory M&E and social accountability

86. **Community Score Card (CSC).** The community score card will be the main tool used for participatory M&E and social accountability; the CSCs will be simple and user-friendly. CSCs will allow: (i) the tracking of inputs or expenditures; (ii) the monitoring of the quality of services/sub-projects; (iii) the generation of benchmark performance criteria; (iv) comparison of performance across facilities/kebele/woreda; (v) generating a direct feedback mechanism between providers and users; (vi) building local capacity; and (vii) strengthening community

empowerment. The CSC process will be composed of 4 components: (i) the input tracking scorecard; (ii) the community generated performance scorecard; (iii) the self-evaluation scorecard by service providers (DAs and selected line ministries); and (iv) the interface meeting between beneficiaries/users and service providers to facilitate productive dialogue and generate solutions to identified issues.

D. Sustainability

87. **Institutional Sustainability.** The AGP will build the capacity of farmer groups (leadership, organizational, managerial, financial, and technical) to maintain their own investments. The AGP will also strengthen woreda and regional institutions (ARDPLACs and agribusiness agencies and institutions) by building capacity and expanding links with other institutions and partners. The role of these institutions will be enhanced as service providers, which will in turn improve their sustainability. The AGP will play a critical role in strengthening and supporting the present public M&E system. The AGP will develop capacity for M&E at various levels to foster its sustainable institutionalization.

88. **Economic sustainability.** The farmer groups will fully own their investments and will be assisted to evaluate the financial and technical soundness of proposals during the preparation stage. They will sustain the economic benefits derived from those investments by operating and maintaining them through their own contributions. The AGP will also link farmer groups to banks and financial institutions to improve their access to finance.

89. **Physical sustainability.** All farmer groups will receive support from advisory services to enhance dimensions of physical sustainability related to land and water management. In addition, farmer groups will be trained in environmental safeguards and be able to ensure that investments are environmentally sound.

E. Critical risks and possible controversial aspects

90. A number of country-level risks have been identified. Ethiopia's macroeconomy remains vulnerable and faces continued balance of payments pressures and negative effects of the global economic downturn. The country's geopolitical location entails risks of regional conflict and recurrent climatic shock. Beyond the substantial risks at the country level, a number of sector- and AGP-specific risks associated with the geographic span of the project and roles of public and private agents in the sector are relevant. Details on sector- and AGP-specific risks are provided in the matrix below.

91. The level of risk is reduced by the government's experience in implementing a number of activities supported by the AGP, by stakeholder dialogue, and by many specific design aspects of the AGP, but the overall risk rating of the AGP remains **substantial**.

Project risks and mitigating measures

Risk factor	Description of risk	Rating ^a of risk	Mitigation measures	Rating ^a of residual risk
Sector Governance, Policies, and Institutions				
Private sector and market policies	Limited private sector engagement in agricultural markets, especially on the input sector side, and limited promotion of appropriate public–private roles to support agricultural growth.	H	<p>AGP focus on successful local solutions that are owned by all stakeholders, including government.</p> <p>The implementation of AGP activities related to agribusiness development is by a third party (through parallel funding) with strong capacity to support the private sector.</p> <p>AGP will provide continued dialogue and analysis to support evolution of private and public sector roles in input delivery.</p>	S
Multi-stakeholder involvement	Limited involvement in planning, implementation, and M&E of private sector and CSOs.	S	<p>AGP design has been informed by a series of consultative workshops that involved multiple stakeholders such as governmental and non-governmental organizations as well as the private sector.</p> <p>Planning, implementation and M&E of AGP will be supported by the advisory role of the ARDPLACs, including those at the woreda level, whose membership comprises non-state actors such as the private sector.</p>	M
Monitoring and evaluation	Low M&E capacity to measure results.	H	<p>Early and substantial investment in M&E design, including development of an M&E and Learning Manual as well as the CLPP Manual for participatory M&E and social accountability.</p> <p>Assignment of M&E specialists within the CUs and periodic training on manual and M&E principles for AGP and other government staff.</p> <p>Outsourcing of impact evaluation to ESSP and survey work to CSA (baseline, mid-term, and end-of-project).</p>	M

Risk factor	Description of risk	Rating^a of risk	Mitigation measures	Rating^a of residual risk
Operation-specific Risks				
Design				
Agri-business opportunities	Communities have limited opportunity to develop markets in agribusiness due to limited access to finance, or lack of knowledge of agribusiness opportunities.	S	AGP will build on (existing) value-chain approaches and experiences to identify viable investment opportunities and will provide technical assistance to potential entrepreneurs, including women and youth groups. Linkages with complementary projects (such as the Rural Financial Intermediation Program) or parallel-financed credit facilities (USAID) will be established to support farmers' investment in agribusiness opportunities.	M
Exogenous shocks	Exogenous shocks and climate variability reduce return on investments and limit participation by poor, risk-averse households.	S	Investment in sustainable land management, small-scale infrastructure, and market access will substantially reduce risk and increase participation. Increased incomes from the AGP will enable farmers to build assets, which in turn will reduce vulnerability to shocks and enable them to take advantage of investment opportunities. The AGP will link with complementary projects to introduce insurance mechanisms to reduce risk.	M
Implementation Capacity and Sustainability				
Financial management (see also Annex 7)	The project is complex with the involvement of large number of dispersed entities with a mix of large and small amounts of disbursement. Weak financial management capacity at lower levels. Delay in submission of financial reports and audit reports	H	The Financial Management (FM) Manual which is part of the PIM reveals the relationship between implementing entities and their respective responsibilities. The manual also highlights the internal control, financial reporting, fund flow and auditing aspects of AGP. Based on the capacity assessment, additional finance officers will be recruited at the Federal and Regional levels. Tailored trainings to enhance capacity will be conducted yearly to each region. External auditors will be recruited within two months of effectiveness. Interim audit will be conducted every six months to facilitate for the yearend audit.	S
Procurement (see also Annex 8)	Weak planning capacity, oversight, staffing, and related problems.	H	Procurement Manual; staffing; training; regular supervision, and related activities.	S

Risk factor	Description of risk	Rating^a of risk	Mitigation measures	Rating^a of residual risk
Limited overall capacity	Low administrative and implementation capacity at the woreda level.	H	Strong emphasis on building implementation capacity. Provision for technical back-up support to woredas as necessary. Performance-based disbursement to woredas should provide incentives for ensuring adequate capacity is in place.	S
Retaining capacity	High turnover among sectoral staff at the regional and woreda levels.	H	AGP will provide continuous training to sectoral staff at the regional and woreda levels; will seek to strengthen incentive mechanisms for staff.	S

Note: H= High, M = Moderate, S= Substantial.

F. Loan/credit conditions and covenants

92. **Conditions of effectiveness.** The following conditions will be met prior to effectiveness of the credit:

- The Borrower has adopted a PIM, including a Financial Management Manual and Procurement Manual, in form and substance satisfactory to the Association.
- The Borrower has established the Steering Committee and Technical Committee at the federal level.
- The Borrower has established the CU at the federal level, with core staff in place (Coordinator, Financial Management Specialist, and Procurement Specialist with qualifications and experience satisfactory to the Association).

93. **Additional dated covenants:** The following dated covenants are established:

- Establishment of fully-staffed Federal CU, satisfactory to the Bank: October 30, 2010.
- Recruitment of External Auditor: Two months after effectiveness.
- Establishment of Steering Committees and Technical Committees at the regional level: Two months after effectiveness.
- Establishment of the CUs at the regional level with core staff in place (Coordinator, Financial Management Specialist, and Procurement Specialist): Two months after effectiveness.
- Include AGP in the annual work plan of the MoARD Internal Audit Unit: Three months after effectiveness.
- Recruitment/assignment of accountant for federal CU and accountant for Oromiya CU: Three months after effectiveness.
- Recruitment/assignment of safeguard specialist in each BoARD: Three months after effectiveness.
- Federal CU to contract procurement consultants for annual independent procurement audit of regions: Nine months after effectiveness.

- Adoption of Small Dam Safety Guidelines: Three months after effectiveness; submission to the Bank of report on safety-related issues of dams: 3 months before closing.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

94. **The AGP area and beneficiaries.** The AGP will focus on selected areas with good potential for agricultural growth. It seeks to increase agricultural productivity and market access in 83 woredas in 4 selected regions: Oromiya, Amhara, SNNPR, and Tigray (see Annex 9). The primary beneficiaries of the AGP are the small- and medium-scale farmers in the 83 selected AGP woredas, which have a total population of 9.8 million. An estimated 2 million agricultural households in about 2,108 kebeles will primarily benefit in the following ways: *directly*, through capacity building, support to farmer sub-projects, value-chain enterprises, and irrigated agriculture, and *indirectly*, through improved public and private advisory services, road and market infrastructure, and sustainable watershed management. The AGP will focus on the participation of women and women-headed households as well as youth. Other beneficiaries of the AGP are farmer organizations, large commercial farms, traders, agro-processors, and public and private advisory services.

95. **AGP benefits.** Specific benefits expected from the AGP include improved productivity, value-added, and market opportunities, which will increase incomes, employment opportunities, and food security for smallholder households. These benefits will result primarily from: (a) increased output and productivity; (b) reduced post-harvest losses; (c) processing and/or packaging; (d) improved access to goods, services, markets, and information; (e) reduced transaction costs; and (f) improved product quality and increased producer (farm-gate) prices. Increased output, income, and employment in the AGP woredas will result in increased demand for goods and services, which is expected to generate additional income and employment effects and increase government tax revenues. The AGP is expected to contribute to agricultural exports as well as import substitution. Consumers are expected to benefit from reduced consumer prices and improved availability of better quality food.

96. The major *institutional benefits* expected from the AGP are: (a) producer and marketing groups are effectively functioning and linked to markets; (b) woreda, kebele, and sub-kebele committees and local communities are sustainably managing their road and market infrastructure investments; and (c) public and private sector operators are providing quality services that are demanded by smallholder producers and rural entrepreneurs. The *social benefits* expected from the AGP result from its focus on increased productivity and targeting of women and youth. The AGP will provide alternative sources of income for poor rural households and serve to diversify rural incomes, thereby helping to reduce vulnerability. The AGP's support to sustainable land and water management, including small-scale irrigation, water harvesting, and watershed management, is expected to result in numerous *economic and environmental benefits*, including: (a) reduced production risk; (b) reduced effects of drought; (c) improved sediment retention and flood control; (d) reduced yield losses from soil infertility and erosion; (e) improved access to water; and (f) increased carbon sequestration.

97. **Economic analysis.** The economic analysis is primarily based on an estimation of farm- and enterprise-level incremental benefits arising from the AGP. Financial budgets for representative crop, livestock, and agro-enterprises have been prepared, converted to economic budgets (valued at economic prices), and aggregated on the basis of the AGP outreach assumptions. Annex 9 provides an overview of the main potential AGP benefits that are included in the economic analysis and presents the assumptions made. The economic analysis takes into account the economic AGP costs and is based on a 20-year period, during which the AGP will generate benefits. The annual O&M costs for irrigation, road, and market infrastructures were included in the economic analysis until the end of the 20-year period, as these costs will have to be incurred if the future benefits of the AGP are to be sustained.

98. **Economic viability and sensitivity analysis.** The economic internal rate of return (ERR) of the AGP is estimated at 19.9 percent with a net present value (NPV) of ETB 1,838 million (US\$ 138 million). These results indicate that, on the basis of an opportunity cost of capital of 12 percent, the AGP will generate a satisfactory ERR and is therefore justified on economic grounds. (Results of the sensitivity analysis are summarized in Annex 9.) The AGP's economic viability is robust to adverse changes in AGP costs, and the AGP still remains viable with increases in capital and recurrent costs of up to 72 percent. The AGP is also robust to changes in incremental benefits and only becomes uneconomic if incremental benefits are reduced by 42 percent. A delay in AGP benefits by two years reduces the ERR to 14.7 percent.

99. **Financial analysis.** Representative financial crop, livestock, and agro- enterprise models have been prepared based on the farming system analysis carried out during AGP preparation and based on information available from similar projects and programs supported by the government and DPs (see details in Annex 9). The models compare scenarios for the “future without the AGP” and “future with the AGP.” Without the AGP, it is expected that farmers will retain their low-input, low-output production systems and that opportunities for increased value addition and marketing in the AGP areas will remain limited. Information from current interventions supporting agricultural and value-chain development in Ethiopia suggests that there is scope for significant increases in productivity, marketed output, and profitability of enterprises (for example, by building management capacity, introducing improved technologies and management practices, providing market infrastructure, and facilitating access to finance), which will be reflected in the “future with AGP” scenario.

100. **Fiscal impact.** In the short-term, the fiscal impact of the project will be neutral, given that the GoE's contribution to project costs primarily comprises salaries of existing staff. The government's estimated share of incremental annual O&M costs of roads and market infrastructure (constructed, rehabilitated, or improved under the project) after Year 5 of the project amounts to ETB 44.7 million (US\$ 3.4 million) at current prices.³⁰ In the medium- to long-term, however, the potential positive fiscal impact of the project will be substantial, mainly due to: (a) increased output, income, and employment, resulting in increased tax revenues and (b) multiplier effects due to increased economic activities in rural areas, resulting in increased demand for goods and services, which is expected to generate additional income and

³⁰ It is assumed that 20 percent will be covered by the beneficiaries. All O&M costs of irrigation and watershed development under Sub-component 2.1 are expected to be borne by the beneficiaries and local communities.

employment effects. Furthermore, substantial foreign exchange earnings/savings can be expected, resulting from an increase in exports and/or a reduction in imports.

101. **Conclusion.** On the basis of the rather conservative assumptions described in Annex 9, the AGP can be justified on economic grounds. It should be kept in mind that not all potential economic benefits (for example, the environmental benefits or the other direct and indirect benefits of rural roads) have been included in the analysis. Furthermore, the likely multiplier effects described above have not been quantified. Therefore, it is safe to assume that the estimated economic benefits are on the low side of the potential economic returns that can be expected when the AGP is implemented.

B. Technical

102. The MoARD has developed a detailed AGP Implementation Manual (PIM) and supporting operational guidelines and manuals. This documentation provides guidance on the identification, preparation, and technical appraisal of proposals for community-based sub-projects, as well as implementation support to be provided for agricultural production and commercialization and small-scale rural infrastructure development. The technical design of AGP is considered appropriate as it is based on lessons from similar operations implemented in Ethiopia, draws on government guidelines related to participatory extension and natural resource management,³¹ and incorporates essential features of best international practices.

103. The AGP supports mechanisms that provide opportunities for actors beyond the traditional public organizations to respond to a broader array of needs and circumstances in the farming and business communities. Those actors include institutions of higher learning, community-based organizations, the private sector, and others with appropriate capacity to participate in the technology support system.

104. At the national and regional levels, the IDA-supported projects—for example, the Agricultural Research and Training Project (ARTP), closed in June 2007, and the on-going RCBP—have helped to develop good implementation capacity within research and extension organizations. The main concerns relate to the links between the research and extension systems and the private sector and the ability to respond to priorities of market-oriented agriculture. To address these concerns, the AGP would support regular interactions between the public and private sector.

105. The AGP's approach to technical appraisal of sub-projects for small-scale community infrastructure draws on successful experiences in the Productive Safety Net APL II and III, as well as the Pastoral Community Development Project (Phases I and II), which include significant support for developing infrastructure based on community demands, such as rural roads, bridges, culverts, water supply, micro-scale irrigation, health care, education, and rangeland management. These projects have demonstrated the technical viability of small-scale infrastructure sub-projects. They have also demonstrated that communities are able to identify, plan, prioritize, and participate in implementation. Additionally, given the right support, they

³¹ MoARD's guidelines for Participatory Agricultural Extension and Community-Based Participatory Watershed Development.

can also carry out the required O&M work. Under AGP, the technical appraisal of investment proposals would be undertaken at the woreda level against transparent criteria, which would be made known in advance to all stakeholders (based on the guidelines and manual developed for that purpose), and evaluated in accordance with technical standards of the line Ministries and Bureaus. Woreda-based technical staff would be closely associated with the entire process, providing support to communities from the initial planning and design stage to implementation and to ongoing management of subprojects. To ensure that woreda staff possess the required capacity to technically appraise the sub-project proposals, regular training would be conducted on different guidelines, as well as work norms and sectoral technical standards that have been developed (for example, for roads, irrigation, and soil and water conservation) to ensure the technical quality of the AGP.

C. Fiduciary

106. MoARD's capacity to implement previous Bank-assisted projects was found to be weak, and MoARD therefore requires technical assistance and training to strengthen its capacity. The procurement and FM capacity of the implementing units has been assessed and details are in the files. Annexes 7 and 8 describe FM and procurement risks and provide action plans to mitigate them.

107. **Financial management.** The FM arrangements for the AGP, discussed in Annex 7, follow the government's Channel II fund flow mechanism. The project will have its own FM Manual, which will describe its budgeting, accounting, internal control, fund flow, financial reporting, and auditing aspects. The manual will also outline the relationship between all implementing agencies and how to account for community contributions to the project. The specific FM arrangements outlined in the FM Manual will cover pooled AGP funds—that is, those provided by the GoE and DPs. The FM design for the project thus follows an approach of harmonizing³² DP financing.

108. The GoE has been implementing comprehensive reforms of public financial management (PFM), with support from DPs, including the World Bank. The main instrument of reform has been the Expenditure Management and Control sub-program of the government's Civil Service Reform Program. This effort is supported by the IDA financed-PSCAP and PBS II Project. The PEFA study of 2007 noted Ethiopia's significant progress in strengthening PFM at the federal and regional levels for example; it cited improvements in budgeting and accounting reform. Although such strengths are noted, weaknesses in the country's PFM system may also impact on AGP, such as the shortage of qualified accountants and auditors (mainly in the woredas), delays in reporting, the limited focus of internal audits, and understaffing of the audit function. The scale of the program and complexity arising from the large number of implementing institutions pose implementation challenges. Financial reporting for the program requires timely submission and consolidation of accurate reports from a large number of institutions. Design features to address these weaknesses include: (a) preparation of an FM Manual tailored to the project; (b) FM support provided by MoARD and BoARDs to other implementing entities; (c) defined timeline for each tier in the reporting process; and (d) the early appointment of auditors and

³² Some donors will be pooling their funds to finance activities of AGP whereas other donors such as USAID will use parallel funding to support AGP.

interim audit procedures. Continuous training will be provided by MoFED, MoARD, and DPs to strengthen the capacity of the implementing entities.

109. The FM risk for the project is rated **high** without mitigating measures but is expected to be **substantial** when those actions are implemented. Actions to address these risks are presented in Annex 7.

110. Given the catalytic nature of the AGP as a national intervention implemented through the MoARD as the lead agency, the financial resources would not be offset against the block grants that are channeled from federal to regional and local level through a national formula. The AGP resources would be fully incremental to the benefiting regions and woredas.

111. **Procurement.** Procurement under the AGP to be financed by IDA and funds from the multi-donor trust fund (MDTF) administered by the World Bank would be carried out in accordance with the World Bank's *Guidelines: Procurement Under IBRD Loans and IDA Credits* (May 2004; revised October 2006 and May 2010), *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* (May 2004; revised October 2006 and May 2010), and the provisions stipulated in the Legal Agreement.

112. Notwithstanding the enactment of a new Procurement Proclamation in July 2009, national Standard Bidding Documents (SBDs) issued in January 2006 on the basis of the old Proclamation 430/2005 of 2005 have not been revised. The World Bank has reviewed the competitive bidding procedures of the Federal Government of Ethiopia. Based on this review, contracts that will not be procured under International Competitive Bidding (ICB) may follow the Borrower's federal competitive procurement procedures, subject to provisions outlined in Annex 8.

113. The last Country Procurement Assessment Report (CPAR) dated June 2002 identified the lack of procurement capacity as a major weakness in Ethiopia's public sector procurement system. A procurement management capacity assessment of MoARD and the BoARDS of Amhara, Oromiya, SNNPR, and Tigray was conducted to ascertain whether there is adequate capacity to conduct procurement efficiently under the AGP. That assessment confirmed the findings of the CPAR of 2002. Lack of procurement capacity remains a major bottleneck for the smooth implementation of donor-supported projects.

114. MoARD is implementing a number of World Bank-financed projects—for example, the RCBP, SLMP, the African Stockpiles Program—Ethiopia, Food Security Project, and PSNP. These projects are at various stage of implementation; some are mid-way, others are near completion, and all offer lessons for implementing the AGP:

- *Weak procurement capacity is a major risk for the implementation of these projects.*
- *MoARD's central procurement unit suffers from insufficient capacity and ineffective communication.*
- *Project coordination units and the World Bank sought to alleviate procurement capacity problems through training with mixed success.*

115. Measures to mitigate these risks are presented in Annex 8.

D. Social

116. A social assessment was conducted in close consultation with communities and GoE. The social assessment identified several social groups in AGP woredas that are disadvantaged, including:

- **Women and female-headed households**, including women without access to farmland, female heads of households with little land and large families (including households with sufficient land but insufficient labor), and women in polygamous marriages whose property rights are not independent of the husband.
- **Youth**³³ who are unemployed and landless.
- **Orphaned children** and children who become family heads, whose inheritance rights may be abused by their custodians.
- **Elderly people** who have land but insufficient labor.
- **Others such as farming households whose productive assets are threatened by various external factors.**

117. The social assessment found that the currently proposed AGP components and activities are generally compatible with the needs of vulnerable social groups in the target locations researched. The AGP will ensure consultation with the groups identified above and any other socially vulnerable groups that may be identified during planning and implementation process. This will ensure that their specific needs are adequately reflected in the planning process of community development plans.

118. Since 1993, Ethiopia has a national gender policy (National Policy on Women). Two National Action Plans on gender (2000 and 2006) were devised to achieve the objectives of the National Policy on Women, but many national targets for gender equality in agriculture have not been met. The project will accordingly enhance opportunities of women to access and manage natural resources and finance, and to participate more fully in social organizations and decision-making.

119. The social assessment has determined that artisans such as potters, smiths, weavers, tanners, and carpenters no longer suffer from being regarded as marginalized and outcast minorities. In the surveyed locations, many such artisans had completely abandoned their traditional skills and had become farmers with land use rights or town residents engaging in trade and other occupations. In some kebeles, weaving and carpentry are acquired skills, although pottery and tannery are still considered crafts inherited within migrant minorities. In all cases, however, interviewed occupation holders did not express feelings of exclusion or discrimination.

120. The AGP will not undertake any sub-projects that will displace people. However, it would support small-scale rural infrastructure that might affect land holdings of individual farmers and hence trigger OP 4.12 Involuntary Resettlement Policy. While individual sub-projects are not yet identified, there will be support for activities such as small scale infrastructure to improve productivity as well as other rural infrastructure such as feeder roads. The AGP has developed a resettlement policy framework (RPF) as part of the ESMF (see Annex 10).

³³ The official government definition of youth is from 13 to 34 years of age.

E. Environment

121. The AGP is assigned an **Environmental Category B**, predicated on the fact that environmental risks and negative social impacts are likely to be minimal, manageable, and, in most cases, reversible. Overall, the proposed operation will impact positively on the biophysical environment, as investments will be planned through a participatory watershed development approach and include various water and soil conservation measures. The AGP will finance sub-projects approved at the woreda level after thorough environmental and social screening and vetting, among other reviews. Aside from the screening checklist provided in the safeguard management instrument, the AGP will adopt MoARD's Community-based Watershed Management Guidelines for implementing watershed management activities. The guidelines contain detailed standards for designing and implementing small-scale infrastructure within watersheds.

122. Environmental impacts (such as loss of vegetative cover, biodiversity loss, pollution, and contamination) and health and safety risks (such as pesticide poisoning or accidents at work camps) may be associated with pre-construction, construction/rehabilitation, and operation of facilities including irrigation dams and canals, machinery to extract groundwater, community warehouses, rural roads, market centers, and the use and disposal of agrochemicals, including inorganic fertilizer. Inappropriate use of groundwater resources (through over-use or agrochemical seepage, for example) could deplete and contaminate aquifers and affect the quantity and quality of water in neighboring communities and riparian countries.

123. As the nature, scope, and locations of specific interventions are not known before the launching the AGP, an Environmental and Social Management Framework (ESMF) has been prepared to screen all proposed interventions, large and small, that emerge from the local planning process. The ESMF will help identify potentially adverse environmental impacts and, where necessary, help guide decisions to: reject a proposed intervention/sub-project; develop and incorporate appropriate mitigation measures before a proposed activity is approved for support; or help establish the requirement to prepare site-specific environmental impact assessments and environmental management plans. The AGP will periodically review the use of the ESMF and any other instruments that may be formulated as a result of potentially significant adverse environmental risks associated with a particular intervention or sub-project.

124. The lead implementing agency, MoARD, has experience with Bank projects but will need support to augment safeguard management and oversight capacity. The required capacity would most likely come from the regions, research, academia, consultancy firms, and civil society. MoARD will also need to strengthen its internal capacity to deliver on safeguard implementation, compliance, monitoring, and reporting.

125. In addition to the Environmental Assessment (OP/BP 4.01), and the policy related to Involuntary Resettlement (OP/BP 4.12) described in Section D above, the AGP triggers the policies related to the areas described in the following. More details are provided in Annex 10.

126. **Physical cultural property.** The social assessment indicates that the sub-projects and small-scale infrastructure investments will not affect any large cultural, historical and religious resources. At the community level, however, a number of sacred and ritual sites possess religious

and cultural importance, and mitigation measures are needed to protect these physical cultural resources. The ESMF has screened and developed procedures and measures to be undertaken in the event that culturally significant materials are discovered during land clearing and excavation.

127. **Pesticide use.** Although AGP funds will not be used to manufacture, or directly purchase or distribute agrochemicals, it is likely that support through the AGP will encourage farmers to use more inorganic fertilizer and pesticide. The ESMF has responded sufficiently to this concern by specifying actions that must be undertaken to minimize the environmental, health, and safety impacts of pesticide use. If environmental and safety hazards are identified or expected from the use of agrochemicals, the project will prepare Pest Management Plans (PMPs)/Integrated Pest Management Plans (IPMPs) prior to commencement of the sub-projects.

128. **Safety of Dams (OP/BP 4.37).** AGP would not finance any new establishment or rehabilitation of large-scale irrigation facilities and dams above 15 meters. However, AGP resources could be used for the financing of check dams or small dams for water storage and other purposes and will finance activities that may rely on the performance of an existing dam. Therefore, the GoE will develop 3 months after effectiveness and, in any case, before the start of such activities, Small Dam Safety Guidelines acceptable to the Bank. 3 months prior to AGP closing, the GoE would submit a report on the safety-related issues of the dams support by AGP to the Bank. The Small Dam Safety Guidelines would set out generic safety measures for the construction supervision and quality assurance, instrumentation, and operation and maintenance of, and emergency preparedness in relation to Small Dams. Request for proposals for technical service contracts related to dam design, construction or operation would be subject to prior review; and qualified professionals satisfactory to the Bank would be contracted. Reports related to Project dams such as technical reports, reports related to safety of, or assessments of dams would be submitted to the Bank for its review within 15 days after completion. The GoE would also submit to the Bank for its review, as soon as available, all information relevant to the relevant dam's safety.³⁴ In the event that AGP-financed activities may have to rely on an existing dam, the Bank will review previous assessments of dam safety or recommendations and safety program already in operation for the particular dam prior to commencement of activities. Generally, it is envisaged that no significant environmental and social risks may arise.

129. **Impact on international waterways.** AGP woredas are located in international water basins. While the impact of individual sub-projects such as small-scale irrigation would be negligible and the cumulative abstractions minor, riparian countries have been informed on the AGP and its potential impact on international waterways. The World Bank on behalf of the GoE notified the riparian countries, i.e. the Governments of Burundi, the Democratic Republic of Congo, Egypt, Eritrea, Kenya, Rwanda, Somalia, Sudan, Tanzania, and Uganda. The Government of Egypt asked for further clarification and, after having received this, stated no objection to the AGP. Similarly, the Government of Burundi and Tanzania provided no objection to the AGP. The Government of Eritrea pointed out that an incorrect map had been inserted and, on this basis, objected to the AGP. The World Bank acknowledged the enclosure of an incorrect map, corrected the mistake in an amendment to the notification to all riparian countries, and

³⁴ This includes cost estimates, construction schedules, procurement procedures, technical assistance arrangements, environmental and social assessments, along with the dam proposal, technical aspects, inspection reports, and any action plans relating to dam safety.

assured the Eritrean government that the error was unintentional and that there will be no project activities in any of the areas in dispute between Eritrea and Ethiopia. The Bank also received a letter on June 22, 2010 from the Government of Kenya, providing its qualified no-objection to the Project. The letter stated that “the ‘No Objection’ is given on the understanding that Ethiopia and Kenya first agree to start negotiating a basic cooperative framework” to address a broader set of riparian issues not directly relevant to the project in question. The response did not reflect any objection to the merits of the proposed AGP activities, as was subsequently confirmed through further discussions with the Government of Kenya. Having considered all the responses from the riparian countries World Bank management assessed that there is no basis for changing the assessment that the AGP activities will not have appreciable effect on the quality or quantity of water for the riparian countries concerned.

F. Safeguard policies

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

G. Policy Exceptions and Readiness

130. Readiness has been assessed during appraisal and negotiations. Key elements for review include:

- (a) Fiduciary arrangements, including a final FM Manual and Procurement Manual, as well as Procurement Plan were submitted to IDA before negotiations.
- (b) Key AGP staff have been assigned during preparation and continue to be in place; the establishment of the federal CU with core staff is a condition for effectiveness.
- (c) The establishment of the AGP Steering Committee at the federal level is a condition for effectiveness; the establishment of the Steering Committees and Technical Committees is a covenant dated two months after effectiveness.
- (d) The adoption of the AGP PIM satisfactory to the Association is an effectiveness condition.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

Annex 1: Country and Sector or Program Background

ETHIOPIA: AGRICULTURAL GROWTH PROJECT

Country and sector issues

1. **Agriculture has contributed to growth in recent years and continues to be the country's most important sector.** Rapid increases in agricultural production and yields have been main contributors to the recent high economic growth and the impressive reduction in poverty since 1995. The sector now accounts for about 45 percent of GDP, almost 90 percent of exports, and 85 percent of employment.

2. **Although recent agricultural performance has been good, many Ethiopians lack access to food and struggle to afford it.** Most Ethiopian farmers rely on small plots of land mainly to satisfy domestic consumption and market only a small percentage of their produce. Most farmers have a low reliance on purchased inputs and have poor market access. Even though around 40 percent use chemical fertilizer, in most cases it is not complemented with improved seed, irrigation water, and agronomic practices that in combination with fertilizer result in substantially higher yields. As a consequence, productivity remains low and prices high; and in years of poor rainfall more Ethiopians become temporarily food deficient.

3. **Ethiopia seeks to scale up its recent success and introduce new agricultural practices to diversify agriculture and add more value to its products.** Substantial opportunities and challenges need to be addressed in order for this to occur. The opportunities include:

- Unexploited potential in well-endowed agricultural areas.
- Profitable opportunities for processing agricultural products.
- Relatively well-integrated markets.
- Strong government commitment to and ownership of agricultural growth.

4. Challenges and constraints vary across locations. The main challenges to developing high-yielding smallholder agriculture in Ethiopia are:

- High vulnerability to weather-induced shocks.
- Farmers' low skills, knowledge, and education.
- Underdeveloped land, labor and credit markets.
- Environmental degradation.
- Limited opportunities and access to resources for women and youth.
- Disproportionate attention in recent years to areas of low agricultural potential, with corresponding relative neglect of those with high potential.

5. **Many areas have large potential for high-productivity agriculture.** Much recent attention has been accorded to areas that are not well suited for agricultural production, since these are the places where emergency assistance is regularly required. Less attention has been devoted to the many areas well suited for modern high-yielding agriculture.

6. **Greater investment in high-potential areas is required to accelerate growth in agriculture.** Government spending on agriculture and rural development has focused on the

food-insecure areas to address food insecurity, but this is not sufficient to address overall national food security. Increasing agricultural productivity in high-potential areas, where opportunities for generating an agricultural surplus are greatest, would lower food prices and contribute to national food security. Increased dynamism in these areas may also benefit households in less-advantaged areas by promoting rural–rural migration of labor, which could reduce pressure in migrants’ areas of origin and generate remittances. Increasing and strengthening the right incentives can increase employment generation for both, the farm and non-farm sector.³⁵

7. **There are substantial opportunities for adding value to agricultural produce on and off the farm.** High import costs result in high prices on most imported processed food, so there is considerable scope for domestic entrepreneurs to take advantage of this price differential. Several feasibility studies have identified high profitability in agro-processing. Taking advantage of these opportunities will create employment and provide alternative sources of income for many rural households, thereby reducing vulnerability.

8. **There is a strong government commitment to and ownership of continued national agricultural growth.** About 16 percent of government expenditure is channeled towards agriculture (including natural resource management), far more than the average of sub-Saharan countries. Although almost half of these expenditures are used to support chronically food-insecure households, investments are also undertaken in expanding the extension system or large-scale infrastructure conducive to continued growth in agriculture and agro-processing. The government is now further complementing its particularly strong effort seen in food-insecure areas by investing in areas with high agricultural potential.

9. **Ethiopian farmers continue to experience weather-induced shocks and are vulnerable to them.** Low income and asset levels, especially for women, together with lack of formal insurance and inadequate informal insurance and coping mechanisms, result in severe hardship following climate shocks (particularly drought), the illness of household members, or livestock disease outbreaks. Furthermore, climatic variability has increased in recent years and is likely to increase even more with global climate change. This variability, together with farmers’ low capacity to store water and irrigate, makes their exposure to climatic risk very high. Estimates indicate that exposure to risk increased from 1999/2000 to 2004/05, and high staple food prices have probably further increased the vulnerability of many people recent years.³⁶ Despite efforts to strengthen the livelihoods of the most vulnerable through the Food Security Program, households’ capacity to absorb shocks is limited.

10. **High risk and vulnerability must be mitigated to secure innovation, investment, and economic growth.** Threats of negative shocks discourage farm innovation and investment. Poor people with entrepreneurial spirit may be reluctant to invest in the high-risk environment because the consequences of failure are severe. For example, people are reluctant to obtain credit because

³⁵ For detailed findings on the barriers faced by small and informal rural enterprises in Ethiopia, see World Bank (2009), “Ethiopia. Diversifying the Rural Economy: An Assessment of the Investment Climate for Small and Informal Enterprises,” Report No. 49564-ET, Washington, DC.

³⁶ For details see MoFED (2008), “Dynamics of Growth and Poverty Reduction in Ethiopia: 1995/96-2004/05,” chapter 8, Addis Ababa.

they fear the consequences of an inability to repay. Financial institutions and MFIs might not provide credit to some people because of the perceived high risk of default. In addition, women's access to markets is particularly constrained, both by their many household obligations as well as other constraints on their mobility. Finally, the high degree of vulnerability may also force households to sell income-generating assets when they experience a severe shock, which in turn lowers their ability to earn income.

11. **The institutions to support agriculture have limited capacity, and the education, skills, and knowledge of farmers are low.** Generally, there are capacity limitations of the public institutions in the agricultural sector, and few corresponding private institutions fill the gap. Moreover, women are less educated, not equally involved in decision making, and tend to benefit less from the overall development processes. Innovation and investments are hampered by farmers' limited knowledge. Many are illiterate and lack experience with high-yielding agricultural approaches. Nonetheless, with sufficient guidance, farmers can adopt improved technologies.

12. **Factor and agricultural input markets are underdeveloped.** A "first-phase" land certification process carried out in large parts of the country has improved land security. However, market-based land transactions and labor mobility can be further enhanced through continued strengthening of the land administration. Farmers' access to financial services, including credit, is improving through the emergence of rural credit cooperatives and MFIs, but it remains limited. Seeds of improved varieties and improved animal breeds are in short supply.

13. **Environmental degradation in some areas reduces growth potential.** In conjunction with the expected higher probability of extreme weather arising from climate change and the increased variability in rain and temperature, the loss from environmental degradation (loss of soil nutrients, disappearing springs and streams, etc.) is a critical constraint to further raising agricultural productivity.

14. **Several obstacles to women's participation in economic activities lower the economic growth potential in agriculture.** A particular focus on women and youth will give the highest increase in economic growth and the largest reduction in poverty. Estimates show that removing the constraints facing Ethiopian women in education and in the labor market could add almost 2 percentage points to GDP growth per year between 2005 and 2030.³⁷ Adding the growth-effects of gender equality in agriculture suggests that there are huge economic benefits from including women more fully in development strategies.

15. **High-yielding technologies must be profitable and predictable for farmers to adopt them.** Historical evidence indicates that farmers are not willing to take the inherent risk of high-yielding farming approaches unless the expected reward is substantially higher than their existing techniques and the risk is acceptable. Selection of technologies for adoption must therefore include careful assessment of economic returns and risks.

³⁷ World Bank (2009), "Ethiopia: Unleashing the Potential of Ethiopian Women. Trends and Options for Economic Empowerment," Report No. 49366-ET, Washington, DC.

16. **As a response to the above challenges and opportunities, the GoE has put agricultural development at the center of its poverty reduction strategy.** The national strategy for industrialization to be led by agricultural development (ADLI) puts agriculture at the forefront of Ethiopia's development process. This strategy is reflected in Ethiopia's poverty reduction strategy (PASDEP), which states that the key challenge for reducing poverty and providing the foundation for long-term growth is to ensure rapid and sustained increases in land and labor productivity.³⁸ A central theme of the PASDEP is a call for accelerated, market-based agricultural development, with a focus on Ethiopia's 13 million smallholder farm households, which produce around 98 percent of country's agricultural output. The focus of the government's efforts to promote agricultural growth has been to strengthen rural capacity, including agricultural extension, training, and research; to support farmer cooperatives; to invest in rural infrastructure such as roads and water resources development (particularly in food-insecure areas); and, to a lesser extent, to facilitate linkages between private investors in agriculture and smallholders. Additionally, the government has established initiatives that address climate change threats and increased its commitment to reducing exposure to chronic food insecurity and shocks.³⁹ In support of the agricultural strategy, the government, DPs, the African Union, and private sector and civil society organizations endorsed the CAADP–Ethiopia roundtable on August 28, 2009. The implementation of the resulting compact will be facilitated through a Policy and Investment Framework that is currently under development.

17. **A central aim of the PASDEP is to stimulate initiative by farmers and support the transition to diversification and commercialization of agriculture.** The second pillar of the PASDEP, "A Massive Push to Accelerate Growth," describes the overall strategy to empower producers and local communities better to use agricultural development as a key to sustained economic growth.

18. **Gaps in finance and a technical capacity limit the government's ability to achieve the mentioned aims.** Despite the government's emphasis on agricultural growth, spending has focused on food security (thematically) and food-insecure areas (geographically), and has limited the resources available for accelerated agricultural growth in many higher-potential areas. Furthermore, many aspects of the overall policy for promoting agricultural growth have not been translated into concrete and effective programs on the ground. As a solution, the government has advocates an integrated approach to address the challenges through a large multi-donor funded program to support agricultural growth.

Agricultural performance

19. **The agricultural sector has undoubtedly grown rapidly over the last few years, but the actual magnitude of growth is uncertain.** Official figures suggest a 9.2 percent growth in agricultural GDP per year from 2005/6 to 2007/8 and a 12 percent annual growth in cereal production in the same period. The figures seem excessive by historical comparisons and in

³⁸ MoFED (2006), "Ethiopia: Building on Progress. A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)," Volume 1, main text, p. 40.

³⁹ Such programs include the PSNP, the proposed SLMP, and the Tana Beles Integrated Water Resource Development Project (TB-IWRD). Significant efforts such as the PSNP and Food Security Project have shown promise recently.

comparison with average yield increases in Eastern Africa. Moreover, the high production figures may also be questioned based on the depth of Ethiopia's current food crisis, and studies do raise such questions.⁴⁰ Nevertheless, significant growth of agriculture in many areas is plausible even if the magnitude is not known.

20. The uncertainty about the degree of progress in the sector, and the inability to identify the impacts of the interventions, implies that the M&E system has to be strengthened. The lack of reliable data constrains fact-based assessments of approaches and interventions for agricultural development. An increasing concern about the reliability of grain production figures shows the need for significant change in the information base, flow, validation, and use of agricultural data. The fact that the M&E systems of MoARD and many donor-supported projects are weak and are unable to link interventions with growth further underlines the need for such support.

21. Despite the sustained growth in output, in particular since 2003/04, analyses suggest that agricultural productivity still has large potential to increase.⁴¹ Even though the data suggest that crop yields in Ethiopia surpass the average for East Africa, they are still lower than potential as shown in research replicating conditions in farmers' fields. The application of fertilizer in Ethiopia has increased in recent years, albeit only in combination with low-yielding traditional seed. Moreover, absolute figures for chemical fertilizer application per hectare are still very low compared to figures for most other countries. Nitrogen and phosphate fertilizers are applied to only around 45 percent of arable land. Hardly any other chemical fertilizer such as potassium, micro-nutrients, or lime is applied. Given that research indicates that much higher yields can be achieved when different types of chemical fertilizer are used with improved seed, irrigation, and pesticides, it is reasonable to assume that the potential for Ethiopian agriculture remains large. Figure A.1.1 shows a minor increase in the use of new seed with chemical fertilizer. This high-yielding approach is currently used on only 5 percent of farmland.

22. The untapped potential for adding value to agricultural produce is also large. High prices of domestically processed agricultural products, the lack of competition in most of this market, and very high prices on similar imported products indicate a large potential for agribusiness along the whole value chain.

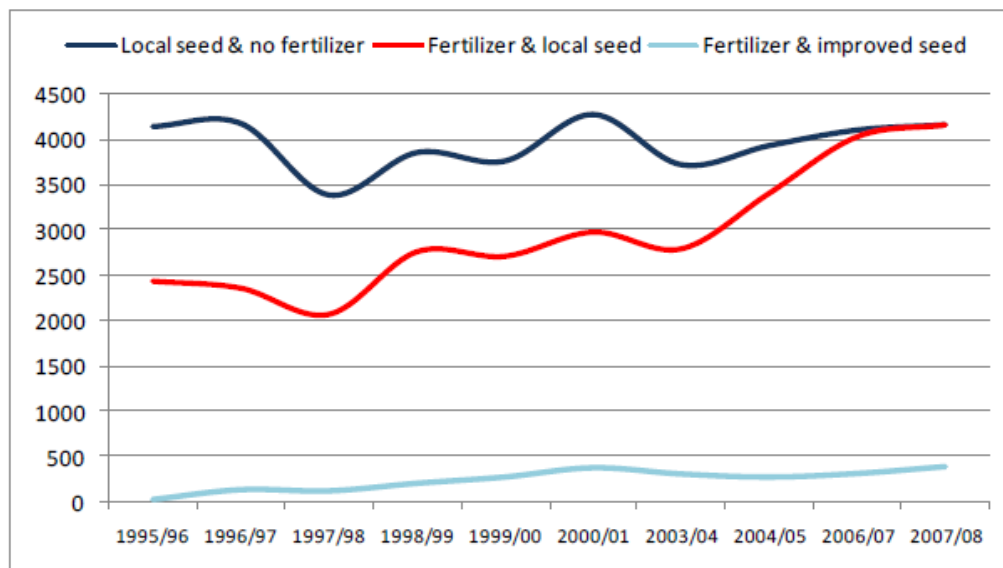
23. Ethiopia's agriculture would benefit much from reduced dependence on weather. Recent high growth can probably be attributed to the recent long spell of favorable weather. The experience suggests that natural variation in weather conditions will cause large losses for Ethiopian farmers in the near future. While a small number of producers will be somewhat insulated from this shock by irrigation, drought-tolerant crops, and formal insurance schemes,

⁴⁰ See, for example, EARS Earth Environment Monitoring (2009), "Fast Crop Yield Forecasts for Maize, Sorghum, and Millet for Eastern Africa," available at http://www.ears.nl/crop_yield_forecast_east_africa.php and IFPRI (2008), "Preliminary Findings from an EDRI-IFPRI Research Workshop on Cereal Availability in Ethiopia." processed policy briefs, Washington, DC.

⁴¹ Including work by various government agencies and levels and other stakeholders on EGCs; assessments of "commodity belts" by EIAR; analysis of potential growth areas by IFPRI/EDRI; analysis of potential growth areas by the World Bank (background to CEM); and value-chain assessments for the cereal, oilseed, pulse, fruit, vegetable, coffee, milk, and meat sub-sectors by several organizations, including FAO, SNV/BOAM, AfDB, and ATEP/USAID.

the majority can avoid large losses only if a coordinated effort expands adoption of improved and resilient technologies.

Figure A1.1: Total area (000 ha) sown to barley, maize, sorghum, teff, and wheat using fertilizer and improved seed



Source: Nin-Pratt et al. (2009).

24. **Ethiopia’s formal input market is still largely driven by the public sector.** For example, government institutions dominate seed development, production, and distribution, either directly or indirectly through contracting.⁴² Limited private sector involvement in input provision and distribution may result in higher prices to farmers, less innovation and development of high-yielding technologies, lower application of inputs, and lower production than would be the case in a more diverse and competitive market.

⁴² For details on the seed market, see Nin-Pratt et al. (2009).

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

ETHIOPIA: AGRICULTURAL GROWTH PROJECT

1. Given the comprehensive nature of the proposed AGP and current fragmented DP support to agricultural development, a considerable number of projects are relevant for the AGP. Tables A2.1–A2.3 show these projects, including those financed by IDA, often with co-financing and support from other DPs; those financed and supported by other DPs; and those financed by other DPs in the proposed AGP woredas. As discussed, the AGP draws lessons and concrete implementation guidelines from a number of these operations. Within the selected AGP woredas, implementation will be coordinated with and benefit from other ongoing related interventions. Over time AGP will emerge as an attractive alternative to current fragmented support and new commitments will finance the AGP or be fully complementary and aligned to it.

2. Operations that are truly complementary to the AGP include, for instance, the multi-donor funded PBS and PSNP programs. The PBS provides woredas with the necessary fiscal resources for a functioning woreda-level administration, with salaries paid to local employees, including agricultural SMSs and DAs. The AGP would complement PBS by providing woredas with (non-salary) resources to substantially increase their services to farmers and their groups and communities. The PSNP provides woredas with funds for transfers to food-insecure households, including funds for public works and household asset-building activities. PSNP operates in food-insecure areas only, whereas AGP would enable woredas in food-secure areas to provide such public works and support to farmers and their groups. The IFAD/AfDB-funded Rural Financial Intermediation Project (RUFIP) and the USAID-funded Development Credit Authority are strongly complementary to the AGP, as they provide or facilitate credit and other financial services to farmers, their groups, and other stakeholders along agricultural value chains, something that is outside the scope of AGP.

3. Many projects provided valuable lessons and informed the design of the AGP. For instance, projects such as the IDA-funded RCBP or the CIDA-funded project on Improving the Productivity and Market Success of Ethiopian Farmers have informed capacity building for the extension system under the AGP. Similarly important lessons on planning, implementation, M&E, and operation of small-scale irrigation were drawn from the IFAD-funded Participatory Small-Scale Irrigation Development Program.

Table A2.1: Major Related Projects Financed by the Bank and/or Other Agencies

Project ID	Name	Objective	DO ratings	IP ratings
P079275	Rural Capacity Building Project	Strengthen agricultural services and systems for improved agricultural productivity.	S	S
P113156	Fertilizer Support Project	Ensure aggregate availability of supply of chemical fertilizers for the 2009–10 production seasons adequate to meet smallholder farmers’ priority demands.	S	MS

Project ID	Name	Objective	DO ratings	IP ratings
P107139	Sustainable Land Management project	Reduce land degradation, leading to the protection and/or restoration of ecosystem functions and diversity in agricultural landscapes.	MS	S
(P098093) P113220	Productive Safety Net Program (APL II and) APL III	Improve effectiveness and efficiency of the PSNP and related Household Asset Building Program (HABP) for chronically food insecure households in rural Ethiopia.	S	S
P050383	Food Security Project	Build the resources base of poorer rural households, increase their employment and incomes, and improve their nutritional levels especially for children under five, pregnant and lactating women.	MU	MU
P096323	Tana Beles Integrated Water Resources Development Project	Promote accelerated, sustainable, and equitable growth in the Tana and Beles sub-basins through the establishment of credible mechanisms for integrated planning, management, and development of the sub-basins' water and land resources	MS	MS
P108932	Pastoral Community Development Project	Increase shock resilience capacity and improve the livelihoods of Ethiopian pastoralists.	S	MS
P050272	Private Sector Development Capacity Building Project	Facilitate increased participation of the private sector in the economy by creating conditions for improving its productivity and competitiveness.	MS	S
(P074015) P103022	Protection of Basic Services Project (Phase I and) II	Protect and promote the delivery of basic services by sub-national government while deepening transparency and local accountability in service delivery.	S	MS
P074020	Public Sector Capacity Building Program Support Project	Improve the scale, efficiency, and representativeness of public services delivery at the federal, regional, and local levels, while promoting good governance and accountability.	S	S
P106228	Ethiopia Nutrition Project	Improve child and maternal care behavior and increase utilization of key micronutrients in order to contribute to improving the nutrition status of vulnerable groups.	S	MS

Project ID	Name	Objective	DO ratings	IP ratings
P091077	Road Sector Development Stage III Project (APL3)	Assist in (i) strengthening and increasing its road transport infrastructure and improving the reliability thereof; and (ii) strengthening the institutional capacity in quality and efficiency of road construction, management and maintenance and creating conditions conducive for the domestic construction industry to develop in the road transport sector.	S	S
P076735	Water Supply and Sanitation Project	Increase access to sustainable water supply and sanitation services, for rural and urban users, through improved capacity of stakeholders in the sector.	S	MS
P112688	East Africa Agricultural Productivity Program	(i) Enhance regional specialization in agricultural research; (ii) enhance collaboration in agriculture training and technology dissemination; and (iii) facilitate increased transfer of agricultural technology, information, and knowledge across national boundaries.	MU	MU

Note: DO = Development Objective; IP = Implementation Progress; S = Satisfactory; MS = Moderately Satisfactory; and MU = Moderately Unsatisfactory.

Table A2.2: Major National Projects Financed by Other Agencies related to AGP

Project/Program	Agency
Ethiopia Strategic Support Program	Multi-donor
Rural Financial Intermediation Program	AfDB/ IFAD
Support to Food Security Information System in Ethiopia	FAO/EC
Agriculture Sector Support Project	AfDB
Ethiopia Agricultural Marketing Development	EC
Improving Animal Health Services through Public Private Dialogue and Partnership	EC
Support to Business Organizations and their Access to Markets	EKN
Participatory Small-Scale Irrigation Development Program	IFAD
Agricultural Marketing Improvement Program	IFAD
Quality Seed Promotion Project for Small Scale Farmers	JICA
Irrigation Development Capacity Building Project (in Oromiya)	JICA
Agricultural Marketing Systems (in SNNPR)	JICA
Development Credit Authority	USAID
Agribusiness and Trade Expansion Activity	USAID
Sanitary and Phytosanitary Standards and Livestock and Meat Marketing Program	USAID

Table A2.3: Major Projects Financed by DPs Related to AGP Implemented in AGP Woredas

Project/Program	Agency
Strengthening of fruit and cactus pear production in Tigray and North Wollo	FAO/Italy
Crop Diversification and Marketing Development Project	FAO/Italy
The Bale Mountains Ecoregion(s) Sustainable Management Program	EKN / Irish Aid
Sustainable Resource Management Program in North Gondar (SRMP-NG)	Austria
Improving the Productivity and Market Success of Ethiopian Farmers	CIDA
Support for Agricultural Development and Capacity Building of Local Farmers' Organizations	France
Ayetu Cereal Bank Project	France
Tana Beles Integrated Water Resources Development Project	Finland
Rural Water Supply and Environment Program in Amhara Region (Phase 4)	Finland
Forest landscape sustainability and improved livelihoods through non-timber forest product development and payment for environmental services	EC
Joint MSc Program in Rural Development	Irish Aid
Strengthening Durum wheat and Wild coffee value chains in Bale / Oromiya	Italy
Development Study on the Improvement of Livelihoods through Integrated Watershed Management in Amhara Region	JICA
Participatory Forest Management Project in Belete-Gera Regional Forest Priority Area Phase 2	JICA
Sustainable Agricultural Development in Tigray Regional State	Norway
SIDA-Amhara Rural Development Program	SIDA
Program Agribusiness and Trade Expansion Program	USAID
Ethiopian Dairy Development Project	USAID
ADCI/VOCA Marketplaces	USAID
Ethiopia Sheep and Goat Productivity Improvement Program	USAID
Land Tenure and Administration Program	USAID
Public Safety Net Program and Pastoral Area Pilot	USAID
Managing Environmental Resources to Enable Transitions to More Sustainable Livelihoods through Partnership and Land Users Solidarity (MERET PLUS)	WFP

Annex 3: Results Framework and Monitoring
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

Results Framework

1. The PDO indicators and intermediate outcome indicators will be measured for averages as well as for women- and youth-headed households.^{43,44}
2. Rigorous impact evaluation will be undertaken to estimate the impact of the AGP on the outcome indicators by comparing AGP with non-AGP woredas.

Table A3.1: Results Framework

Development Objective	PDO Indicators ⁴⁵	Use of Outcome Information
Agricultural productivity and market access increased for key crop and livestock products in targeted woredas, with increased participation of women and youth.	1. Percentage increase in agricultural yield of participating households (index for basket crops and livestock products). ⁴⁶	This indicator tests the effectiveness of the AGP's activities at increasing agricultural productivity. It will further capture the impact on women by a specific analysis of women's activities (dairy; sheep and goats; poultry; and possibly backyard vegetables).
	2. Percentage increase in total real value of marketed agricultural (including livestock) products per participating household.	This indicator assesses the effectiveness of the AGP's activities at increasing commercialization and value-addition of agricultural and livestock products at the household level. It will further capture the impact on women by a specific analysis of women's activities.

⁴³ The AGP will use the official GoE definition of youth, which is from 13 to 34 years.

⁴⁴ In addition, the CSA baseline, the mid-term and end-of-project impact studies will include a more in-depth analysis on the inclusion of women and young individuals. Specific attention would also be given to the land-less youth.

⁴⁵ The impact evaluation study will disaggregate the indicators for the key agricultural commodities by region.

⁴⁶ Main livestock products include: milk (liter of milk/cow/day), eggs (number of eggs/hen/year), meat (live weight/sheep, goat, cattle/at slaughter age (2 years old for sheep and goat; 6 months old for poultry and 3 years old for cattle) and honey (kg/hives/year). To further capture the impact of the AGP on women, an analysis of this indicator will look at the percentage average increase in agricultural yield for poultry, and dairy, sheep and goats, and, possibly, backyard vegetables, as they are considered activities predominantly undertaken by women.

Intermediate Outcome for each Component	Outcome Indicators for Components	Use of Outcome Monitoring
Component 1 Agricultural Production and Commercialization		
<p><i>Sub-component 1.1: Institutional Strengthening and Development</i></p> <p>Farmers have improved access to and quality of services through support from key public institutions and private organizations (groups).</p>	<ol style="list-style-type: none"> Percentage of farmers satisfied with quality of extension services provided (disaggregated by service providers, type of service/technology, crop, and livestock). Share of households that are members of functioning farmer organizations⁴⁷ (disaggregated by group type). 	<p>To assess if advisory services have increased their capacity and are operational to support participatory need-based approach to service delivery and agricultural development in general.</p> <p>To assess whether a critical number of households are organized in functioning groups to undertake AGP activities.</p>
<p><i>Sub-component 1.2: Scaling up best practices</i></p> <p>Sub-projects for improved productivity, value addition, and marketing realized and sustainably managed.</p>	<ol style="list-style-type: none"> Number of farm households with innovative best practices (improved/new techniques and technologies). Number of sub-projects fully operational and sustainably managed 2 years after initial investments (disaggregated by type of investments).⁴⁸ 	<p>To assess sub-projects relevance, the effectiveness of advisory services, and implementation capacity of beneficiaries.</p>
<p><i>Sub-component 1.3: Market and Agribusiness Development</i></p> <p>Key selected value chains strengthened.</p>	<ol style="list-style-type: none"> Percentage real⁴⁹ sales value increase of the key selected value chains commodities supported at the end of the value chain.^{50,51} 	<p>To assess the effectiveness of the AGP at strengthening key value chains.</p>

⁴⁷ The definition of “functional” will differ among farmer organizations. For example, a common interest farmer group is functional if it has designed a plan for future activities, a Rural Savings and Credit Cooperative (RUSACCO) is functional, if it has achieved a certain level of savings, and so on. The definition of functional will also consider whether the organization has benefited from training in participation, gender, organizational, leadership, managerial, financial, and technical skills. The definition has included by the evaluations as part of the survey design.

⁴⁸ The definition of “functional” will also differ among sub-projects. For example, an irrigation sub-project is functional if the infrastructure is delivering the intended benefits, is appropriately maintained, and the farmer group has allocated resources in a common fund for future O&M of the infrastructure.

⁴⁹ Deflated by consumer price index.

Intermediate Outcome for each Component	Outcome Indicators for Components	Use of Outcome Monitoring
Component 2: Rural Infrastructure Development		
<p>2.1 Small-scale Agricultural Water Development and Management. Demand driven infrastructure investments for improved agricultural productivity realized and sustainably managed.</p>	<ol style="list-style-type: none"> 1. Number of farmers benefiting from the irrigation investments (disaggregated by type of investments). 2. Percentage of infrastructures utilized one year after the investment is completed (disaggregated by type of infrastructures). 3. Percentage increase in area under irrigation. 4. Percentage increase in areas treated under sustainable land management.⁵² 	<p>To assess sub-projects relevance, the effectiveness of advisory services, and implementation capacity of beneficiaries.</p>
<p>2.2 Small-scale Market Infrastructure Development and Management Demand-driven infrastructure investments for improved access to market realized and sustainably managed.</p>	<ol style="list-style-type: none"> 5. Percentage decrease in time for farmers to travel to market center. 6. Percentage of users satisfied with the quality of market centers. 7. Percentage of road and market center investments sustainably managed one year after the investment is completed. 	<p>To assess sub-project relevance, the effectiveness of advisory services and implementation capacity of beneficiaries.</p>

⁵⁰ Either the domestic value (for example, for a processed product) or export value, measured at the highest stakeholder level (for example, at the wholesale, agro-processing, or export level).

⁵¹ This indicator was agreed with USAID, which will finance this activity. In addition, USAID will track other indicators for this sub-component, such as (a) the number of jobs created by member businesses of the producer organizations, industry, trade associations, chamber of commerce, and cooperatives; (b) the increase in investment in new agribusiness or agriculture-related businesses, both in numbers of new businesses and in value of businesses; and (c) the increase in the membership and revenue of producer organizations, chambers of commerce, and cooperatives that deal in fruits, vegetables, oilseeds, coffee, leather, and leather products. USAID will track indicators on a quarterly basis.

⁵² Defined as using a key soil and water conservation measure including terracing, bunding, tree planting, management of communal land according to agreed charter, etc., to be defined by communities in line with local conditions.

Arrangements for results monitoring and implementation capacity

3. **Roles and responsibilities.** For the AGP, M&E 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 annual work plans and budgets and ensure that corrective measures are quickly implemented.

4. **Federal level.** Overall M&E will be coordinated at the federal level (AGP-PCU) by a Monitoring and Evaluation Officer (hired by MoARD) in collaboration with M&E Officers based at the regional AGP offices. The coordination of all M&E activities of the AGP comprises overseeing data collection, analysis, and reporting on the implementation and progress of each component, subcomponent, and region of the AGP. It also includes managing occasional evaluations and impact evaluations carried out by external firms and supporting M&E staff in the regions, zones, and woredas with regard to M&E requirements, capacity development, and IT equipment. The federal CU will submit quarterly reports for review by the federal SC, the World Bank, and other DPs. In addition, the content of the quarterly M&E reports will be summarized in annual reports whose release will be timed to coincide with the completion of the financial year.

5. **Regional level.** BoARD will hire one Monitoring and Evaluation Officer at each regional CU. These officers will coordinate M&E for their respective regions, ensuring that M&E data are collected regularly in accordance with agreed upon procedures. The M&E Officers will compile and cross-check reports submitted by zones. They will also provide M&E technical assistance and training. They will advise woredas based on inputs and outputs reported. The release or withholding of funds will be based on reported performance. In addition, the M&E Officers will undertake punctual qualitative case studies of activities (such as beneficiary interviews, lessons learned, and pictures of sub-projects) and a yearly qualitative analysis of participatory M&E data. The Regional M&E Officers will receive training in M&E and computer skills. The regional CU will submit quarterly reports to the federal CU M&E Officer.

6. **Participating organizations.** Regional Marketing Agencies, Soil Fertility Laboratories, Bureaus for Cooperative Promotion, and others participating organizations will report quarterly on their activities following the required formats to the regional M&E Officers.

7. **Zonal level.** At ZOARD, M&E for the AGP will be conducted by the zonal AGP Coordinator. The zonal M&E Officers will work closely with woreda AGP Coordinators, ensure timely delivery of reports by woreda AGP Coordinators, and compile and cross-check the reports. They will also provide M&E technical assistance, training, and advice based on inputs and outputs reported. The ZOARD AGP Coordinator will receive training in M&E (including reporting) and computer skills. The AGP Coordinator will submit monthly reports to the regional CU M&E Officer.

8. **Woreda level.** Information from the M&E system will be reported by different AGP Coordinators according to their area of specialization: Financial information will be the responsibility of the WOFED AGP Coordinator and non-financial information will be the responsibility of the WOARD AGP Coordinator.

9. The WOFED AGP Coordinator will report on financial information (use of resources and other data), cross-check information in the field, and provide feedback on implementation progress. The Coordinator will receive training in M&E (including reporting) and computer skills and will submit monthly reports to the regional CU M&E Officer and the zonal AGP Coordinator.

10. The WOARD AGP Coordinator will compile and cross-check data collected by the DAs. The Coordinator will also provide M&E technical assistance, training, and advice based on inputs and outputs reported. WOARD AGP Coordinators will work closely with DA Supervisors and DAs and conduct regular field visits to kebeles and sub-kebeles to engage directly with DAs and verify that M&E activities are being implemented properly. The AGP Coordinators will receive training in M&E (including reporting), facilitation, social accountability, participatory M&E, and computer skills. The AGP Coordinators will submit monthly reports to the regional CU M&E Officer and the zonal AGP Coordinator.

11. **Kebele/sub-kebele level.** At the kebele level, DA Supervisors will be responsible for submitting the data collected by DAs to the WOARD and WOFED AGP Coordinators. DA Supervisors will ensure that information from participatory M&E is available at FTCs and social accountability information is posted on FTCs' boards. The DA supervisors will receive training in M&E (including reporting), facilitation, social accountability, and participatory M&E skills.

12. At the sub-kebele level on a weekly basis, DAs collect project information from beneficiaries using the required reporting format and submit the reports to their respective DA Supervisors. In addition, DAs will make information from participatory M&E available at FTCs and post social accountability information on FTCs' boards. The DAs will facilitate and train beneficiaries in participatory M&E, which will be used as an internal learning tool for AGP staff and beneficiaries. The DAs will work with the Development Committees to ensure social accountability.

13. At the kebele and sub-kebele levels, beneficiaries will undertake participatory M&E and social accountability activities to provide feedback on AGP activities. M&E information flows are depicted in Figure A3.1. Arrangements for results monitoring are summarized in Table A3.1.

14. Performance monitoring and performance-based disbursement. In order to strengthen the institutional arrangements and increase the efficiency of fund use, disbursement to AGP woredas will be conditional on evidence of performance. Specifically, based on the bi-annual reports and their evaluation, disbursement will be suspended if a woreda falls below a certain minimum threshold. Indicators with thresholds for disbursement might include the percentage implementation of (bi-annual) work plan and the percentage share of women- and youth-headed households benefiting. Details are provided in the PIM.

M&E Input and Output Information Flow for Sub-Projects

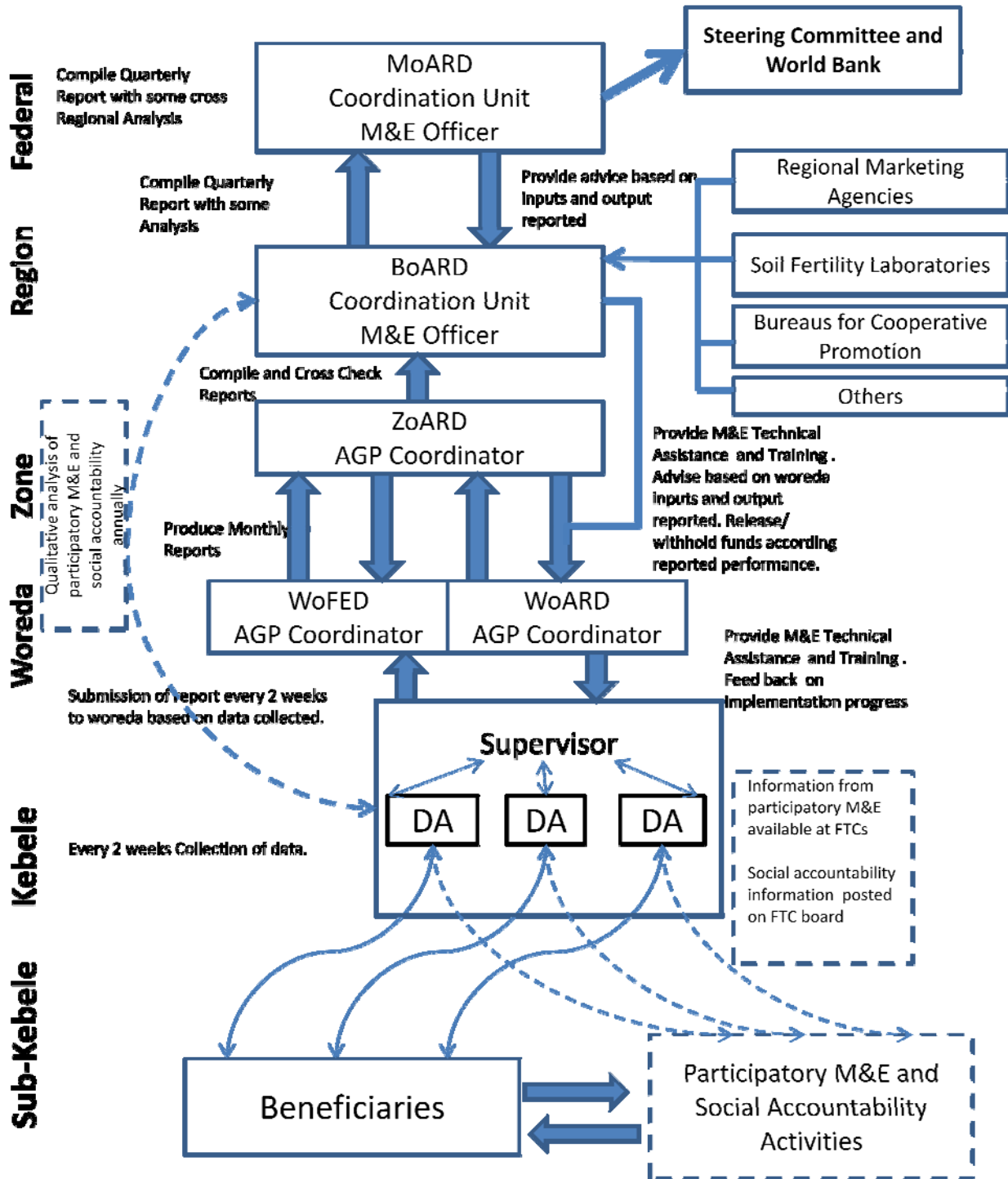


Table A3.1: Arrangements for Results Monitoring

Project Outcome Indicators	Base-line (2010)	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
PDO 1 Percentage increase in agricultural yield ⁵³ (basket crops and livestock products). ⁵⁴ - Total - FHH - YHH	9.9 9.9 12.4			11.0 11.0 13.6		11.5 11.5 14.4	YR3 and YR5	Household Survey	CSA
PDO 2 Percentage increase in total real ⁵⁵ value of marketed agricultural products ⁵⁶ (including livestock) per household (in ETB). ⁵⁷ - Total - FHH - YHH	7,176 6,172 7,221			8,072 6,943 8,123		8,731 7,509 8,785	YR3 and YR5	Household Survey	CSA

Note: Baselines shown are preliminary, as they are obtained from the Rapid Baseline Survey. For example, the baseline values for PDO 2 seem excessive. The baseline values will be revised after the baseline for 2010 is conducted by CSA and evaluated by ESSP.

“FHH = Female-headed households; YHH = Youth-headed households.

⁵³ The detailed impact assessment study disaggregates these figures by key agricultural commodities and region.

⁵⁴ Baseline is defined as a productivity index of the following agricultural commodity basket: Crops, weighted 75% (includes wheat, teff, sorghum, barley, rice, finger millet, chickpeas, haricot beans, horse beans, field peas, grass peas, niger seed, and potatoes, weighted by area), and livestock, weighted 25% (milk, eggs, weighted by sales value).

⁵⁵ Deflated by consumer price index.

⁵⁶ The detailed impact assessment study disaggregates these figures by key agricultural commodities and region.

⁵⁷ Base is the average marketed value per household.

Intermediate Outcome Indicators	Base-line (2010)	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
IO 1.1 Percentage of farmers satisfied with quality of extension services provided (in percent). ⁵⁸ - Total - FHH - YHH	79 85 79			81 88 81		87 94 87	YR3 and YR5	Household Survey	CSA
IO 1.2 Share of farm households who are members of functional ⁵⁹ farmers' organizations (in percent). - Total - FHH - YHH	36 32 35			37 33 36		40 35 39	YR3 and YR5	Household Survey	CSA
IO 1.3 Number of farm households with innovative best practices (in '000). ⁶⁰ - Total - FHH - YHH	0 0 0			40.0 8.0 10.0		126.0 25.0 31.5	YR3 and YR5	Household Survey; Annual AGP Reports	CSA

⁵⁸ Based on Rapid Baseline sample survey with simple question about satisfaction (yes, no); methodology to measure satisfaction needs to be refined for CSA Baseline Survey.

⁵⁹ Monitored through households surveyed for the Rapid Baseline through the question, "Are you a member of a farmer group?" (details by group type available). The functionality of the group was not monitored; the CSA baseline survey needs to improve this aspect of the data.

⁶⁰ Households organized in groups and benefiting from the innovation mechanism under Sub-component 1.2.

Intermediate Outcome Indicators	Base-line (2010)	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
IO 1.4 Number of sub-projects fully operational and sustainably managed ⁶¹ 2 years after initial investment (in '000). - Total - FHH - YHH	0 0 0			10.0 2.0 2.5		50.0 10.0 12.5	YR3 and YR5	Household Survey; Annual AGP Reports	CSA; IA
IO 1.5 Percentage sales value of key selected value chain commodities supported at the end-of-the-value-chain. ⁶² - Total - FHH - YHH	n.a. n.a. n.a.			n.a. n.a. n.a.		n.a. n.a. n.a.	Annually	Annual AGP Report	Implementing Agency (USAID)
IO 2.1 Number of farmers benefiting from the investments (in '000). ⁶³ - Total - FHH - YHH	0 0 0			24.0 4.8 6.0		72.0 14.0 18.0	YR3 and YR5	Household Survey; Annual AGP Reports	CSA

⁶¹ To be defined for each type of sub-project by technical experts / evaluators in consultation with beneficiaries.

⁶² This indicator was not monitored by the Rapid Baseline Survey; the baseline would be established through the CSA Baseline Survey and target values set afterwards, in consultation with the USAID-supported implementing agency.

⁶³ Targets are based on a total area targeted for irrigation of 18,000 hectares; assuming average irrigated land per household of 0.25 hectare.

Intermediate Outcome Indicators	Base-line (2010)	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
IO 2.2 Percentage of infrastructure utilized 1 year after the investment is completed (in percent). ⁶⁴ - Total - FHH - YHH	0 0 0			80 80 80			FY3 and FY5	Annual AGP Report	Implementing Agency
IO 2.3 Percent increase in area under irrigation (percent of cultivated land). ⁶⁵ - Total - FHH - YHH	4.5 4.5 2.2			5.1 5.1 2.5			YR3 and YR5	Household Survey; Annual AGP Reports	CSA; Implementing Agency
IO 2.4 Percent increase in areas treated under sustainable land management (in hectares). ⁶⁶ - Total - FHH - YHH	n.a. n.a. n.a.			15% 15% 15%			FY3 and FY5	Expert Assessment	federal CU

⁶⁴ Refers to agricultural water investments under the AGP.

⁶⁵ Baseline calculated by surveying the household's share of land under irrigation. Note that data for FHHs were not reliable, so that it was assumed that FHHs had the same share of irrigated area as all households. Verification and refinement will take place through the CSA Baseline.

⁶⁶ Baseline is average (per household) hectares of land under SLM (including communal land), based on households stating area treated under any of the following measures: "alley cropping with trees," "terracing," or "stone/soil bunds." The baseline for this indicator will be assessed through experts' opinion on micro-watershed treatment rather than household survey

Intermediate Outcome Indicators	Base-line (2010)	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
IO 2.5 Percent decrease in time for farmers to travel to the nearest market center (in minutes). ⁶⁷ - Total - FHH - YHH	52 52 52			1.5% 1.5% 1.5%		5% 5% 5%	FY3 and FY5	Household Survey	CSA
IO 2.6 Percent of users satisfied with the quality of market infrastructure (roads and market centers) (in percent). ⁶⁸ - Total - FHH - YHH	66.2 62.7 64.7			68 65 67		76 73 75	FY3 and FY5	Household Survey	CSA
IO 2.7 Percentage of market infrastructures (roads and market centers) sustainably managed one year after the investment is completed. ⁶⁹	0			80		80	FY3 and FY5	Annual AGP Report	Implementing Agency

Direct and indirect beneficiaries:

The direct beneficiaries are the (rural) citizens in the AGP woredas or most of the about 9.6 million people in 1.9 million households.

The AGP will also benefit others more indirectly. Most closely to the AGP woredas, the people living in the towns of the AGP woredas as well the population living in and conducting economic activities in the neighboring areas will benefit from spill-over effects, e.g. through increased trade or labor opportunity or innovations in their neighborhood. These types of indirect beneficiaries could be as large as the directly beneficiaries or also roughly 9.6 million people. Even more broadly, the AGP is designed as a national catalytic intervention that indirectly will benefit, at least to some extent, all citizens of the county, i.e. all other about 68 million Ethiopian. For instance, agricultural growth in the AGP woredas is expected to stimulate agricultural growth elsewhere; and through a dampening effect on agricultural and food prices all net consumers of food, including the food-deficient rural households and the urban population will benefit from the AGP.

⁶⁷ Time to “nearest local marketplace” estimated by households sampled in the Rapid Baseline Survey.

⁶⁸ The source of the baseline information is from the Rapid Baseline Survey, based on simple yes/no question on satisfaction with existing market infrastructure.

⁶⁹ Refers to market-related investments under the AGP.

Annex 4: Detailed Project Description
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

1. The AGP approach to agricultural growth in Ethiopia is as follows:

- AGP will focus on smallholder farmers in high potential areas. The AGP will help to scale up best practices in agricultural production and post-harvest value addition, with due emphasis on natural resource conservation and rehabilitation. To ensure a flow of appropriate technologies, the AGP will strengthen the ability of both public and private organizations to cooperate with each other to respond to smallholders' demands for new technologies, advice on improved practices, and investment in infrastructure.
- Investments in rural infrastructure will support small-scale irrigation; watershed management (including water harvesting and micro-irrigation); rural road development; and market infrastructure. The AGP will adopt a demand-driven and market-oriented approach. Most interventions will be implemented in a decentralized manner, based on bottom-up planning by local communities or farmer groups.
- The AGP will strengthen informal and formal farmer organizations, including groups formed by women and youth, as well as their cooperatives, around some common interest. Advisory service institutions will be strengthened to integrate farmers' organizations with value chains for selected commodities and enhance the effectiveness of the extension services.
- Although the project focuses on smallholders and ultimately aims to improve the productivity and commercialization of the smallholder farming sector, it also works with a range of public and private players, including public service providers, cooperatives, agro processors, traders, and financial institutions.
- Special attention will be devoted to building knowledge on gender and youth issues. The project will help to develop capacity among women and youths to form producer groups, teach leadership skills (particularly for productive organizations), and stimulate them to voice their views in meetings.

2. **Intervention areas and woreda selection.** The AGP focuses on areas that are relatively rain-and food-secure and, given the right support, hold considerable potential for agricultural growth. A total of 83 woredas in 20 clusters in the four regions of Amhara, Oromiya, SNNPR, and Tigray have been selected. Selection criteria for these AGP growth clusters include: access to markets (access to cities of 50,000 population or over in less than 5 hours), natural resource endowment (rainfall distribution with annual average of 700 mm or over; soil types suitable for crop and fodder production; potential for development of small-scale irrigation facilities); institutional capacity (public staff number and skill base; institutional plurality of service providers, including good basis and growth of viable cooperatives and farmer groups); and willingness and commitment to participate (supportive policy environment; performance of

projects/programs supported by other donors; existing partnership engagements with private sector). The list of AGP woredas by region and zone is provided in Attachment 2 to this Annex.

3. **Key Commodities.** An initial list of key commodities has been identified for each of the proposed AGP clusters and regions. The commodity selection, using a value chain approach, is based on the following criteria: (i) importance of potential marketable production; (ii) number of farmers involved in producing this commodity; (iii) capacity to increase household profitability; (iv) potential to increase productivity/production in a sustainable manner and reduce production risk; (v) large price difference between farm-gate and regional market; (vi) potential for labor absorption in the value chain; (vii) potential for foreign currency earning or import substitution; and (viii) spill-over effects into neighboring woredas. The preliminary list of commodities is available in the project files.

4. The AGP will have two technical components and a project management and M&E component. The component and activity structure is presented in the Attachment 1 to this Annex.

Component 1: Agricultural Production and Commercialization (US\$ 118.3 million; IDA/pooled: US\$ 67.4 million; USAID: US\$ 45.0 million).⁷⁰

5. **Overview.** This component will strengthen the public advisory services, particularly agricultural extension, and develop the institutional capacity of farmer organizations and other private sector stakeholders involved in supporting AGP activities. It will strengthen farmer-market linkages and promote agribusiness enterprises. This component will have three sub-components, described below: Institutional Development and Strengthening, Scaling up Best Practices, and Market and Agribusiness Development.

Sub-component 1.1: Institutional Development and Strengthening (US\$ 37.6 million, IDA/pooled: US\$ 34.5).

6. The objective of this sub-component is to provide farmers with improved access to services through support from key public and private institutions. The activities to be supported emphasize strengthening the capacity of public advisory services and farmer organizations to work closely, using participatory approaches to enhance the relevance and effectiveness of public services, especially agricultural extension. Specific interventions to be supported will include ARDPLACs, strengthening key public extension, soil fertility management, and animal health services; and strengthening farmer organizations.

1.1.1: ARDPLACs

7. ARDPLACs, which now exist at the federal level and in all zones, have been developed for a number of years in Ethiopia. They serve a multi-stakeholder mechanism, primarily to promote a participatory, need-based approach to research and extension and to strengthen research–extension–farmer linkages. Funding for ARDPLAC activities is provided through MoARD’s Extension Department. Federal and zonal ARDPLACs have provided a platform for discussing

⁷⁰ Figures shown are costs including contingencies; the remainder between total and the sum of DPs contribution are government and beneficiary contributions. For more details see Annex 5.

issues related to research–extension–farmer linkages and to identify issues that affect agricultural productivity and require greater attentions from the research system. Recently ARDPLACs have been established in a few woredas, and under the AGP, they will expand to all AGP woredas. At the same time, membership of these advisory councils will grow to include other governmental and non-governmental stakeholders engaged in rural development at the woreda level, including the private sector. The role of ARDPLACs will be further strengthened at all levels to promote a participatory, need-based approach to service delivery and agricultural development in general. ARDPLACs’ function (identifying research and extension issues) will be enhanced by involving their representatives in monitoring technical interventions and their outcomes in AGP woredas. AGP funding will cover the cost of meetings, a workshop, and participation of ARDPLAC members in monitoring and reviewing project interventions aimed at improving service delivery, especially extension.

1.1.2: Strengthening of key public advisory organizations

8. ***Strengthening the public extension service.*** AGP support will focus on mainstreaming MoARD’s Participatory Agricultural Extension System through the existing institutional arrangements, while emphasizing decentralized planning and decision-making processes, as well as funding a demand-based extension agenda. At the kebele level, extension services will be delivered through DAs, based at the training centers (FTCs). Their core activities will cover issues related to livestock, crop production, and natural resource management. In this work, DAs will be supported by woreda and the zonal SMSs as well as zonal and regional staff. Under AGP, participatory planning and funding of the extension agenda will be built around priorities identified by farmer groups. Linkages of the kebele and woreda staff with the private sector, including cooperatives, will be strengthened to develop greater understanding of market requirements and their ability to serve increasingly market-oriented agriculture. Greater engagement of the community, including the kebele Council, will be sought in the management of FTCs to enhance local ownership and sustainability. In addition, the AGP will support:

- ***FTCs.*** Improvement of FTC facilities will include rehabilitation of buildings, provision of essential furniture and equipment, and development and use of demonstration farms to share innovations based on location-specific needs identified by farmers. Currently established governance arrangements under the management committee appointed in agreement with the Kebele Council will be maintained. To enhance sustainability of operations, FTCs, in consultation with their management committees and the Kebele Councils, will be able to engage in income-generating activities. At least during the early years of implementation, however, the focus will be on FTCs’ role as the innovation center for the farming communities they serve on the basis of the farmer-led learning model being promoted under AGP.
- ***Training.*** The focus will be on bridging skill gaps for the DAs, woreda, and zonal staff so that they can use participatory approaches to support market-oriented agriculture involving the production, processing, and marketing of a broad range of crop and livestock commodities. Short-term training of DAs and SMSs will emphasize practical skills in participatory extension management, identifying needs in market-oriented agriculture, improving crop/livestock production systems, managing natural resources sustainably, and related technical subjects. The ability of DAs and SMSs to serve women farmers will be strengthened in all training modules. Assistance will be provided to prepare project-specific training modules, train trainers, engage specialized

organizations and experts for short-term training, and upgrade training facilities in specialized institutions such as Agricultural Technical Vocational Education and Training (ATVETs) and agricultural universities.

- *Mobility.* Since lack of mobility of DAs and SMSs is a major constraint to effective service delivery, the AGP will finance purchases of motorcycles and bicycles, as appropriate.
- *Information Technology Support.* The AGP will provide IT equipment with internet connectivity and training to SMSs at the woreda and zonal levels to improve linkages with partner organizations, especially research, through the *WoredaNet*.

9. ***Strengthening the soil fertility management services.*** These services are provided by the central and regional soil testing laboratories. They will receive analytical equipment, chemicals, and training to promote improved fertilizer use based on soil analysis and to assist with the reclamation of problems soils such as acid soils. In addition, provision has also been made to increase the production of lime to reclaim acid soils, which are widespread in many AGP woredas. Before any investment is made, however, two studies will be undertaken, one to assess and prioritize region-specific needs of laboratories serving the AGP woredas and define the investment packages, and the other to evaluate proposed investment to increase lime production to determine the most cost-effective approach to funding this activity under the AGP.

10. ***Strengthening the animal health services.*** The government has invested in a network of animal health care facilities that requires further strengthening for services to become more demand-based and for the system to be more effective. At the kebele level, this network includes a health post staffed by a health assistant (the government plans to establish one health post for every three kebeles over time). Each health post provides primary health care and AI services to the local farming community. The woreda clinic provides diagnostic services and referral support for the kebele health posts.⁷¹ The woreda clinic is staffed by a veterinarian, three health technicians, and two animal health assistants. Woreda clinics are in turn supported by the regional animal health laboratory, which is also responsible for the regional disease surveillance. The federal laboratories provide further referral support to the regions and control of type-A (cross-boundary) diseases. The animal health care network is adequately staffed but cannot provide quality service because it lacks equipment and the skill base of technicians and health assistants is low. Community outreach remains weak due to shortage of operational funds and lack of mobility. The plan to improve outreach by developing a cadre of voluntary community animal health workers (CAHWs) has barely started.

11. The AGP will help to equip regional animal health laboratories, woreda veterinary clinics, and kebele animal health posts; upgrade skills of professional staff, and strengthen community outreach by training a group of CAHWs identified by participating communities within AGP woredas/kebeles. It is intended that the CAHWs will be trained and supported to provide combined primary animal health care and AI services (discussed under Sub-component 1.3). CAHWs will operate under the overall supervision of health assistant and will only dispense drugs on a full cost recovery basis following diagnosis by a qualified health technician. The AGP

⁷¹ In Oromiya, the woreda clinics furthermore manage a revolving drug fund to make essential drugs more readily available to farmers.

will facilitate links with drug suppliers (private and public) but will not support revolving drug schemes at public clinics and health posts because this is essentially a private sector activity.

1.1.3: Strengthening of farmer organizations

12. ***Establishing and strengthening new and existing informal farmer groups.*** Support will be provided to promote and build capacity of existing or new grassroots organizations of farming communities. More specifically, the AGP will support formation of groups along some common interest, such as production of the same commodity (cereals, oil crops, legumes, vegetables, milk, and seed), water use, marketing, credit, and so on. Women and youths will be facilitated to either form their own groups or join another group of their choice. Since there is experience of working with farmer groups in Ethiopia, many *kebeles* will have some farmer groups. These groups will be identified; where appropriate, re-constituted; and based on the interests of their members, oriented to participate in AGP-supported activities. These groups will be the key instrument for social mobilization and community-level institution building, needs assessment, planning, and implementation of local interventions. Exchange visits between groups having common interests will be supported to promote group-to-group, farmer-to-farmer learning. By working in groups, farmers will have improved access to public services and facilitate linkages with markets to move towards a market orientation in farming operations. Capacity and skills of group leadership as well as members will be enhanced. Operational guidelines to manage different types of group-based activities are included in the PIM to facilitate implementation of different activities.

13. ***Strengthening of farmer organizations*** Based on their interests and vision, informal farmer groups will be supported to federate and register as cooperatives to facilitate wider and stronger collective action. For example, they could form a multi-purpose or commodity-specific cooperative society or a primary rural savings and credit cooperative society (RUSACCO) to address important social, economic, or financial needs. Governance, financial management, and business operations of new as well as existing cooperatives, including their unions, will be strengthened through training and exposure visits. This effort will enable farmer groups to undertake wider and stronger collective action on behalf of members and provide them a range of services, including marketing of inputs and outputs and financial services.

14. ***Capacity building of agencies supporting farmer organizations.*** This support, targeted mainly to woreda-level agencies, will develop their capacity and skills to train informal farmer groups and farmer organizations. This activity will be coordinated and partly provided by the regional and federal Cooperative Agencies.

Sub-component 1.2: Scaling up Best Practices (US\$ 29.7 million: IDA/pooled: 26.9 million).

15. The main objective of this sub-component will be to increase agricultural productivity and household incomes by helping to identify best practices for scaling up through the sub-project proposals developed by all participating groups in the AGP woredas. Important factors contributing to low productivity of crop and livestock production systems in the AGP woredas are related to land degradation, including severe soil erosion, due to intensive cultivation of fragile areas with limited soil and water conservation measures and recycling of organic material. Unreliable rainfall and inadequate technologies (for example, poor quality seed and inappropriate

management practices) further reduce productivity. In livestock systems, the key constraints include limited availability of feed and grazing areas, widespread disease, and unimproved stock. Weak market linkages and the lack of facilities and capacity for post-harvest value addition at the community level limits opportunities for commercialization of agriculture and diversification of income sources.

16. The CLPP Manual, the Scaling-up Best Practices Manual, and the Farmer Innovation Fund and Adaptive Research Guidelines—along with the supporting extension guidelines, will be the key supporting documents for the implementation of activities aimed at achieving the two outputs of this sub-component: (a) best practices identified and sub-projects prepared and (b) implementation support provided. The AGP will support a decentralized, community-driven approach, described in the sections that follow, to identifying, preparing, implementing, and monitoring the interventions.

1.2.2: Support for identification of best practices and preparation of investment sub-projects.

17. ***Identification of best practices.*** The extension service, in consultation with key stakeholders and with a better understanding of opportunities and threats in the project woredas, will identify improved technologies and management practices that have potential to respond to farmers' needs identified through the investment sub-projects proposals. The aim will be to address key constraints by identifying technologies and management systems that will lead to improved productivity/profitability of crop-livestock production systems while contributing to sustainability of the production systems by using integrated approaches to nutrient, pest/disease, water, and land management; provision of improved seed/breed/planting material; improved post-harvest management systems for perishable products; and improved technologies for small-scale processing and value addition. The project will support the identification process through focus group discussions and workshops involving extension workers, scientists, NGOs, and development project/program managers. Support will also be provided for collating and printing information on the best practices for distribution to key stakeholders.

18. ***Preparation of sub-project proposals.*** The AGP will fund investment sub-projects developed by farmer groups to address their priorities using participatory approaches. These demand-based proposals will be prepared using the steps outlined in the CLPP Manual. This manual also describes the process for screening, technical appraisal, and approval of proposals at the woreda level. The CLPP Manual has already been discussed with farming communities and field tested in two locations. Participating groups will be trained in the CLPP process and provided technical as well as logistical support for preparing sub-project proposals. Sub-project proposals are expected to cover a wide range of themes related to production and post-harvest management, including small-scale processing and/or value addition. A possible list of investment sub-projects is given in Attachment 3 to this Annex.

19. The kebele extension team composed of DAs, farmer group representatives and community activist will assist with the process of preparing sub-project proposals and assembling them into a kebele micro-plan for endorsement by the Kebele Council. Micro-plans will be further aggregated within the woreda AGP plans. After technical appraisal by the woreda technical team, the plan will be approved at the woreda level by the Executive Committee of the Woreda Council. More information on the planning and approval process is given in the CLPP Manual.

1.2.2: Implementation Support for Scaling up Best Practices

20. ***Extension support for implementation.*** Extension support will focus on narrowing the gap between average farm yields and those achieved at experimental farms or by progressive farmers. The scope and coverage of the extension services provided by DAs, woreda SMSs, and other service providers (such as cooperatives and other agribusiness players) will be determined by the needs identified in the sub-project proposals. Since the severity of constraints contributing to low productivity varies across locations, the emphasis will be on addressing location-specific needs identified by groups. At the same time, community-level soil and water conservation measures (such as the bunding, gully protection, check dams, and water harvesting supported for watershed management under Component 2) will be integrated with on-farm interventions to improve sustainability. The range of technological interventions to be promoted could include improved varieties/hybrids/breeds; conservation farming (including improved land and water management as well as crop rotations and mulching); and integrated nutrient and pest management. Diversification opportunities, especially for diversifying into high-value commodities, will be encouraged where access to water can be assured and linkages with markets exist or can be established. In addition, the project will support targeted interventions to address key cross-cutting constraints in relation to the groups' evolving needs. Extension support will include training, organizing experience-sharing visits for group members, planning and helping participating farmers to manage on-farm demonstrations of best practices, and using those sites for farmer-to-farmer dissemination of the improved technologies and management practices being demonstrated. Adopting a value-chain approach for the delivery of extension will help groups develop market linkages either through cooperatives or directly with other private sectors marketing/processing enterprises. The extension service will also help to link interested groups with value-chain development work to be supported under Sub-component 1.3.

21. ***Community-based seed production for food and forage crops.*** In view of the widespread shortage of good seed of improved varieties, extension support will target community-based seed production through groups. This activity will focus on producing seed for self-pollinated crops, especially staple cereals like teff and wheat. AGP will support groups engaging in seed production either as contract growers for public or private enterprises or through a sub-project to increase seed availability within their own community. Contract growers will receive training and technical advice to ensure that groups can meet quality standards set by buyers (seed enterprises). For sub-projects proposed by the groups, a wider range of support will be provided, including access to a greater supply of breeder and/or basic seed and training and demonstrations on improved seed production techniques. In addition, linkages with cooperatives will provide access to seed processing, cleaning, grading and packing facilities. The project will train and assign one of the woreda SMSs to provide dedicated extension support to improve the quality of farmer-saved seed of self-pollinated crops, improve farmers' seed replacement rate, and advise them on issues related to seed production. Detailed guidelines on the scope and coverage of the support to be provided under AGP will be included in the Extension Manual.

22. ***Farmers' Innovation Facility.*** The main objective of this facility will be to build farmer groups' capacity to identify innovations relevant to their needs from different sources, participate in experimentation to validate and refine those innovations, and scale them up more rapidly. Support will be available for a broad range of activities that group members identify as important constraints to raising productivity and profitability of their farming operations. Priority areas for

support will be identified by group members during preparation of investment sub-project proposals. Wherever appropriate, locally adapted, low-cost, indigenous technologies will be integrated with recommendations from the formal research and extension system for local validation. FIF will follow the same preparation, screening, and approval steps as described for sub-project preparation under the CLPP Manual. AGP funding for this facility has been included based on the successful experiences of RCBP (and ARTP) with the Farmer Research Extension Group (FREG) and Farmers' Innovation Fund (FIF) approaches. These approach enabled farmers to refine and validate improved technologies and obtain small grants to innovate and explore new opportunities using indigenous knowledge and new ideas from different sources. Under the AGP, the facility will consist of a one-time grant to foster farmer-led innovations and their further dissemination through the investment sub-projects. The overall size of the support to be provided will be determined by the nature of problems to be addressed but will not exceed EBT 5,000 per member (household). The average period for implementing grant-financed activities is expected to be around 24 months. Detailed guidelines for managing this facility have been prepared and included in the CLPP Manual.

23. An added flexibility under the AGP FIF will be the ability to support short-term technology development and validation trials through service agreements with the regional research systems to address location-specific constraints identified through the sub-project preparation process for which no “ready-to-use” technology is available. If considered appropriate, funding for the acquisition of technologies from the global knowledge pool, especially for production and post-harvest management of high-value commodities, will also be considered using the “technology shortcut” mechanism established under RCBP.⁷² ARDPLACs will play an important role in the identification, preparation, and review of proposals accepted for funding under the FIF. Some examples of problems that may require technology development support could include:

- *Improvement in fertilizer use efficiency.* A major constraint to increased productivity is the poor land quality, resulting from erosion, nutrient leaching, acidity or salinity, and nutrient depletion/mining. The project will support diagnostic and location-specific technology development to improve fertilizer use efficiency, including support for integrated nutrient management practices involving the use of inorganic and organic fertilizers (green manure, animal manure and composting) and crop rotations. Trial data relevant to the AGP woredas will be updated based on further trails, soil testing, development of woreda fertility maps, and crop-specific fertilizer recommendations.
- *Amelioration of problem soils.* Among problem soils; acid soils are considered to be the main concern because they cover a wide area and greatly reduce productivity. The severity and distribution of acid soils in the project areas have not been precisely quantified, but it is estimated that in some regions, such as Amhara and SNNP, around 30 percent of woredas may suffer from this problem. The project will support analysis of soil samples from selected locations to delineate areas that need to be treated with lime and to develop a fertilizer use regime based on soil testing, including applications

⁷² The objective of the RCBP is to strengthen agricultural services (research and extension) and systems for improved agricultural productivity and to make them more responsive to clients' needs. Among many other activities, RCBP supports “technology shortcuts” that help acquire technologies relevant to Ethiopia from the global knowledge pool, including the purchase of patented or protected technologies, and adapt them to local circumstances.

of macro- and micronutrients, to optimize productivity and determine the cost-effectiveness of likely recommendations.

- *Promotion of on-farm processing and value addition* using improved technologies and hygienic systems (for example, for honey production).
- Development of *private contract service providers*, including cooperatives, using small-scale machinery and implements for timely completion of key farm operations such as land preparation and threshing.

Sub-component 1.3 Market and Agribusiness Development (US\$ 51.0 million; IDA/pooled: US\$ 6.0 million (activity 1.3.2.2 only); USAID: US\$ 45.0 million)

24. Agricultural production and growth in particular relies increasingly on markets and private sector development, which tend to center around value chains—the marketing activities and actors engaged in production, processing, marketing, and other value-adding activities. Promoting agribusiness is vital to move subsistence agricultural production towards a more commercial approach. A stronger market orientation could stimulate activities for agricultural production, provide opportunities for diversification of rural economies, and thereby contribute to increasing rural household incomes and livelihoods. For this reason, sound investment in value-chain development is a key precondition for a sustained agricultural production operation.

1.3.1: Support to Agricultural Value Chains

25. The objective of this activity is to strengthen key selected value chains in the four AGP regions. This activity is expected to increase the value and volume of sales (domestic and international) of the value-chain commodities targeted by the AGP. The sub-component will use a value-chain methodology to identify and address constraints and market opportunities for the key value chains and stakeholders and stimulate links between agro-enterprises and cooperatives and domestic, regional, and international markets. Support is targeted at the overall value chain as well as key public and private stakeholders.

26. ***Selection of commodities for value-chain development.*** Initial activities will target (at most) four commodities with high growth potential per region,⁷³ including important staple crops with potential for new or improved links to domestic, regional, or international markets that can result in significant increases in investment, sales, jobs, and incomes. Economies of scale and operational efficiencies are also possible if multiple regions select the same or similar commodities. The selection of commodities is based on previous value-chain analyses, additional market studies, and multi-stakeholder (including diverse key value-chain stakeholders) processes such as the model process currently undertaken in Oromiya. The criteria for selecting commodities include but are not limited to:

- Importance of potential marketable production.
- Number of farmers (women, men) involved in producing this commodity.
- Capacity to increase household profitability (increased potential for adding value and household revenue growth).
- Potential to increase productivity/production in a sustainable manner (with the current or potential involvement of the private sector) and reduce production risk.

⁷³ Additional commodities may be added if opportunities arise and funding permits.

- Potential for labor absorption in the value chain.
- Spillover effect in neighboring woredas.

27. The final selection will also take notice of the following issues: the balance among commodities (for example, a mix of rainfed and irrigated commodities; crops and livestock; staple and cash commodities; or a mix of durable and perishable commodities); availability of input supply for the commodity; gender implications; ownership and commitment by value-chain actors (particularly the private sector) to allocate time and resources; fit with AGP woreda-level plans; potential for all AGP regions; and capacity to respond to needs and opportunities. The design includes flexibility to revise the commodity list based on future market developments.

28. The activities center on: (a) business activities related to improving the productivity, value added, and competitiveness of the value-chain enterprises (production, storage, processing, transporting, exporting, and so on) and (b) improving the participation, awareness, and capacity of public and private value-chain actors (such as producers, cooperatives, processors, wholesalers, retailers, exporters, and relevant public agencies) in selected areas of importance. Unlike the other components of the AGP, support to markets and agribusiness will be largely implemented at the regional level along the selected commodity value chains. The AGP supports the following areas of intervention, described in greater detail below along with implementation arrangements: innovation and demonstration funds; private sector capacity and technical assistance; promoting links to credit facilities; and the sectoral analysis of constraints and facilitation of sector (value chain) development.

29. ***Innovation and demonstration funds.*** The *innovation fund* helps enterprises (including cooperatives, processors, and traders) in the selected value chains to improve their productivity and competitiveness through innovation—that is, by pursuing additional and innovative activities, such as diversifying production or adding value in new ways. Support will focus primarily on acquiring and transferring technology, identifying new markets and their segments, and providing associated business support and services.

30. Support, primarily on a cost-sharing basis, will be provided to private enterprises on a demand-driven basis, for the following broad categories of activity:

1. Technology acquisition and transfer, including agricultural, processing, and marketing equipment, productivity techniques, and plant and animal improvements. The fund will encourage transfers of cutting-edge scientific, technological, and other innovations to producers from global agribusiness brands in Africa, Europe, Asia, and the United States.
2. Support and capacity building to identify new markets and market segments through improved access to information, research, and studies associated with value-chain development and business development services (BDS). Strategies include supporting entrepreneurs by helping them to gather value-chain data, such as market research or constraint/opportunity analyses; collecting and disseminating regional and global trade leads; providing support to attend trade shows; and providing BDS.
3. Capacity building through BDS such as business management and development, best business practices, product promotion, and acquisition of technical and market information.

31. Matching investments must demonstrate a direct positive effect or clear spillover effects on smallholders or outgrowers, and they must not distort the market. Support will be based on a transparent selection process, relying on set rules and eligibility criteria.

32. The *demonstration fund* is intended to support direct procurement of proven technologies to enhance productivity or prototypes of broad public value, with potential to address gaps in value chains. The “demonstration” aspect of this funding refers to the display of improved or new technologies or prototypes in production, transporting, storage, and processing to stakeholders all along the value chain (farmers, processors, traders, and consumers). Such technologies may be identified by any private and public stakeholder in the value chain, can be imported or locally produced, and can be demonstrated through public channels, such as farmer field days or trade fairs, or directly through a private entrepreneur (farmer, agribusiness).

33. A private entrepreneur receiving support from the demonstration fund must contribute in two ways: (a) through cost sharing and (b) through a written agreement that their premises may be used under AGP as a demonstration and training venue for the technology.

34. ***Private sector capacity and technical assistance.*** This activity identifies capacity gaps and provides training and/or BDS for all private stakeholders along the value chain: farmer groups (focus on “farming as a business”), primary cooperatives, unions, traders, agro-processors, and exporters who are involved in the development of agribusiness. Key general areas for targeted training include: agribusiness concepts and principles; business management and development; best business practices; product promotion; provision of technical support; and accessing agricultural marketing and credit systems. Support may also be provided to service providers (such as commodity associations, chambers of commerce, agencies supporting small and medium enterprises, regional investment offices, BDS providers, and others) through hands-on training and coaching.

35. Business development services will be provided (for example, services related to market links, product quality and promotion, technology transfer and use, forming partnerships, and links to finance) to commercial farmers, agro-processors, and traders based on domestic, regional, and international market opportunities.

36. ***Promoting links to credit facilities.*** Limited access to finance terms of financing remains a serious constraint for producers, processors, and enterprises. While the AGP aims to help enterprises gain access to credit programs, the details of this support await the findings of the ongoing AGP finance study. Key elements in facilitating access to credit include: technical assistance to agribusiness in the development of profitable business plans; technical assistance to MFIs and RUSACCOs in microfinance best practices; credit guarantees to encourage private bank lending to agribusiness and MFIs; and linking AGP efforts to possible assistance (technical assistance and credit) for AGP region MFIs under the second phase of the Rural Finance Intermediation Project.

37. ***Sectoral analysis of constraints and facilitation of sector (value chain) development.*** The public sector capacity-building program aims at strengthening public sector agencies, such as the Marketing Department/Agency, Meat and Dairy Technology Institution, Horticultural Agency, Agricultural Investment Directorate, Animal and Plant Health Regulatory Directorate, regional

marketing agencies, and regional development bodies (such as the Tigray Agricultural Marketing and Promotion Agency), to participate in and support the implementation of the key value-chain-strengthening activities as identified by the AGP. Activities may include: (a) sensitization and experience-sharing workshops for value-chain and agribusiness development; (b) training in agribusiness development; (c) participation in value-chain platforms and value-chain analytics; (d) potential direct support in public institutions for constraints specific to particular value chains, such as support for product-specific tests; and (e) upgrading office facilities and human skills in institutions and agencies in areas specific to the key value chains.

38. The private sector has a central role to play in identifying and advocating policy, legal, and institutional change that will help facilitate both government and private sector objectives. Multi-stakeholder, public–private fora will be organized—with the help of a stakeholder committee and neutral value-chain experts (facilitators)—to facilitate a common understanding and collaboration among stakeholders. Stakeholders in the various value chains will be assisted to identify policy, legal, and institutional constraints; articulate their impact on actors and functions along the value-chain; and develop a strategic intervention plan that prioritizes actions and investments for greatest effect. When further analysis and study are required, fora will be organized to further define the issues as appropriate. In other words, a critical element of this sub-component will be to support an effective dialogue between public and private sectors that leads to actions that further develop and increase efficiencies along the AGP’s selected value chains.

39. **Implementation arrangements.** This sub-component entails parallel funding and to some extent parallel implementation arrangements. All major activities will be implemented by independent entities (that is, by contractors or grantees engaged under AGP) which have federal and potential regional offices. All activities will be implemented in close concert and consultation with the other AGP components and sub-components (such as farmer sub-projects and farmer innovations, extension strengthening, and irrigation and market infrastructure development) to avoid duplication, possibly leverage institutional resources for scaling up (for example, extension agents or DAs may assist in value-chain technology transfer and participate in trainings at stages when widespread technology transfer is ready) and for developing sufficient links between supply and demand for the selected value-chain commodities.

40. The approach must be implemented in close collaboration with key federal ministries, regional governments, and agricultural marketing units, cooperative development bureaus, and export promotion bureaus. ARDPLACS will be informed of value-chain activities and included in platform fora. Close coordination with the Ethiopian Investment Authority and other federal authorities is essential to encourage and promote private agricultural investment and ensure appropriate technology is transferred and applied to meet market requirements.

41. Management and oversight of this sub-component will utilize the structures detailed in the PIM. The detailed design and implementation arrangements will be commissioned out to an independent contractor.

1.3.2: Strengthening Supply Systems of Key Inputs

42. Activities will include the development of a strategy for transitioning towards greater private sector participation. Two main areas of intervention are considered: increasing seed (including forage) availability and improving livestock breeds. The details of these activities will be determined at appraisal, but the following paragraphs give some idea of how they might work.

43. ***Increasing seed (including forage) availability.*** This activity will complement activities for increasing seed availability on demand under Sub-components 1.1 and 1.2 and, for specific commodities, under the value-chain activity of Sub-component 1.3. Efforts will particularly involve research, regulations, public and private seed multiplication, and seed quality control.

44. ***Livestock breed improvement.*** The AGP will finance a mix of public and private investment in animal genetic improvement in Ethiopia. Public investments will upgrade facilities and management capacity at the national AI center, support the purchase of breeding stock for several breed multiplication farms, and develop four regional semen collection and processing centers. Development of the regional semen collection and processing centers will be phased, with two initially planned. The second phase of the multiplication farm reinforcement will be subject to the outcomes of an evaluation of animal breeding services in Ethiopia, to be conducted prior to the mid-term review. The private sector will be invited to participate in the expansion and upgrading of the breed multiplication farms.

45. Animal health services and AI at the village level will be developed primarily as a private good, delivered through trained village-level AI technicians, who will also be trained as animal health workers (CAHWs). Combining the AI/CAHW roles should provide sufficient income for a viable livelihood, thereby ensuring sustained services at village level. The government will also contract village AI/CAHWs for public good vaccination and epidemiological work, further strengthening their incomes. The woreda livestock/animal health officer will supervise the village AI/CAHW program. In remote areas where demand exists for breed improvement services, the role of specialized breeding households will be explored, including the provision of fresh semen insemination for dairy and beef breed improvement. The AGP will provide training for new and existing AI technicians and capacity building for AI center staff, including overseas experiential learning. International technical assistance will be recruited to conduct the review of animal breed improvement in Ethiopia.

Component 2: Small-scale Rural Infrastructure Development and Management (US\$ 142.1 million; IDA/pooled: US\$ 121.3 million).

46. This component will support the construction, rehabilitation/improvement, and management of small-scale rural infrastructure to address key production constraints, improve productivity, and develop and increase the efficiency of key value chains through improved market access. Its two sub-components focus on developing and managing small-scale agricultural water supplies and market infrastructure.

Sub-component 2.1: Small-Scale Agricultural Water Development and Management (US\$ 87.0 million; IDA/pooled: US\$ 75.8 million).

47. The overall objective of this sub-component is to enhance agricultural productivity by improving the security and availability of agricultural water and protecting the natural resource base in selected AGP woredas. This objective will be achieved in association with other agronomic practices, through the use of improved technologies for water collection, conveyance, and application. Investments will include: (a) SSI infrastructure development and management and (b) implementation of soil and water conservation practices within the overall framework of sustainable watershed development and management. The AGP will support, among other activities, the provision of irrigation water and on-farm irrigation water management services on about 18,000 hectares (of which about 13,000 hectares are under SSI schemes and the remaining 5,000 are under micro-irrigation technologies) and the implementation of soil and water conservation practices over 75,000 hectares.

2.1.1: Small-scale and Micro-Irrigation Infrastructure Development and Management

48. This intervention seeks to increase irrigated agriculture by developing and improving the use of surface and sub-surface water and encouraging the use of agricultural water management practices that improve the return to irrigation infrastructure investments. The following activities are envisaged: (a) rehabilitation and/or improvement of existing traditional SSI and micro-irrigation schemes; (b) establishment of new SSI and micro-irrigation schemes, including micro-dams, gravity and pump diversions, and groundwater development (shallow wells); (c) implementation of agricultural water management; and (d) institutional capacity building to improve service providers' capacity to render appropriate and timely services to farmers and to ensure ownership and sustainability of the system by delegating O&M responsibilities to beneficiaries. The AGP will also support provision of startup spare parts and hand tools that are important for O&M by the community.

49. To support **water harvesting and micro-irrigation technologies**, AGP will promote the use of robust and demand-driven interventions, including: (a) construction of ponds, tanks, and hand-dug wells; (b) supply of portable diesel irrigation pumps, mechanical pumps, family drip systems, and similar technologies for about 200 selected demonstration sites; (c) establishment of groundwater recharge structures; (d) capacity building, including training for farmers and SMSs in water harvesting and micro-irrigation technologies; and (e) linking farmers to credit services and other input providers. While the beneficiaries themselves are expected to make maximum contributions towards these activities, the AGP will finance purchases of industrial materials required to build water storage and conveyance facilities, water lifting units, and irrigation equipment, as well as skilled labor, and will provide start-up spare parts and hand tools that are important for O&M.

50. To support **agricultural water management**, AGP will enhance the capacities of relevant institutions and Irrigation Water User Groups/Associations (IWUG/A)⁷⁴ in agricultural water

⁷⁴ A proposal to approve the constitution of water user association is currently under review by the GoE. Based on the timely approval of this law, formation and training of water user associations would be anticipated under this project. If the law does not get approved early in the project's life, the AGP would instead support the formation and strengthening of informal irrigation water user groups.

management in conjunction with water infrastructure development for agriculture. The key areas of intervention will increase the productivity of irrigated agriculture by providing improved irrigation water application and scheduling technologies and introducing better agronomic practices (such as land preparation, integrated moisture and nutrient management, and integrated pest management) in existing and new SSI and micro-irrigation schemes. The activities to be financed include: (a) introducing improved irrigation water management technologies and production practices through on-farm demonstrations; (b) establishing and training committees to enable their communities to effectively implement improved methods of managing available water resource, settle disputes over water, and keep proper records; (c) providing simple equipments to help monitor soil moisture and evaporation at the field level to optimize crop yields through appropriate irrigation application; and (e) training farmers, DAs, and SMSs at the woreda, zonal, regional, and federal levels in improved irrigation water management and agronomic practices. Financing for activities under this category will be fully borne by the AGP.

2.1.2: Soil and Water Conservation

51. This activity will support implementation of best practices for soil and water conservation to improve soil fertility and soil moisture in the system. The implementation of sub-projects under this activity will be carried out within the larger framework of sustainable watershed development and management. Thus planning and priority setting for implementing these sub-projects will be based on optimizing the overall objective of the watershed rather than individual holdings. Support under this activity will focus on protecting and rehabilitating watersheds where small-scale irrigation and/or water harvesting and micro-irrigation schemes are envisaged. Soil and water conservation activities on private and communal lands are expected to increase the productivity of irrigated agriculture by reducing soil erosion and improving in situ moisture conservation. Activities that will be supported include, for example: gully rehabilitation, area closure, plantation of multipurpose trees, and groundwater recharge interventions in areas where groundwater development is ongoing or planned. Financing (cost sharing) and implementation of activities under this category will follow the “Community Watershed Management Guideline” in the PIM.

52. **Reducing degradation of private and communal land and gully development.** Specific, locally appropriate, physical and biological measures will be used to stabilize hillsides, degraded private and communal lands, and gullies. Degraded lands and hillsides will also be improved through a broad range of management practices and technologies that have proven financially, ecologically, and socially viable under local conditions. Similarly, gullies will be treated through a broad range of measures, including check dams, gabions, reshaping and cultivation with multi-purpose perennial trees, shrubs, and grasses. These activities require very substantial investments that have significant public benefits, including benefits for the local community, downstream population, and the environment.

53. **Institutional development and capacity building.** The lack of technical expertise among public and private service providers to implement AGP at all levels is evident from the SSI capacity needs assessment and constraints analyses conducted in September 2009. The study also highlighted the critical shortage of skilled labor in water development in rural areas. The AGP will thus support institutional development and capacity building, such as short-term and tailor-made training, experience-sharing visits, and study tours related to soil and water conservation in

the context of overall watershed development and management. Exposure visits and training in watershed planning, best management practices, the identification of hotspots, and priority setting at the watershed level will be supported.

Sub-component 2.2: Small-scale Market Infrastructure Development and Management
(US\$ 55.1 million; IDA/pooled: US\$ 45.5 million)

54. One of the main causes of low agricultural productivity in Ethiopia is the isolation of its farm communities from basic social and economic services such as market infrastructure. Access to basic services, availability of improved market centers, and access roads are critical components of market infrastructure. This sub-component will strengthen rural market infrastructure to enhance the profitability of agricultural activities through better access to input and output markets and links to agro-processing. Interventions under this sub-component include: (a) feeder road development, (b) market center development, and (c) institutional development and capacity building of relevant implementing and advisory service agencies (including public, private, and common interest groups) at all levels of implementation. Overall, the project will support, among other activities, the construction and/or rehabilitation of about 800 kilometers of small-scale feeder roads that are critically important for fulfilling AGP objectives and the establishment of about 40 primary market centers, 20 secondary market centers, and about 8 terminal market centers.

2.2.1: Feeder Road Development and Management

55. Substantial evidence exists that investments in rural roads and transport connectivity have positive effects on agricultural productivity and output. Better road connectivity increases the use of improved technologies, reduces the costs of moving goods and services, and raises producer prices. Given the inadequate road network, its poor quality, and the lack of proper repair and maintenance, AGP will support: (a) construction, rehabilitation, and/or maintenance of small-scale rural feeder roads, roadside drainage, and footbridges in areas where a critical mass of project participants will benefit; (b) establishment and training of road maintenance committees, (c) provision of start-up spare parts and hand tools important for O&M, and (d) links to credit services and other input providers to introduce intermediate means of transport.

56. Given that resources under AGP for small-scale rural roads are relatively small, compared to what is envisaged under the government's program to improve rural access (URAP), it is critical for the AGP to align itself carefully with government plans and identify the gaps that it can fill to make the most impact, especially in relation to prospective beneficiaries of other AGP interventions such as SSI schemes. To that effect, the ERA, Regional Rural Roads Authority, and woreda office of rural roads will be closely consulted and involved under AGP. The AGP will also try to identify possible cost-sharing arrangements with participating woredas to ensure that priorities are given to AGP woredas by the road authorities when URAP is rolled out. The financing arrangement with beneficiaries under this category of activities will follow the GoE guidelines under the URAP program—also included in the PIM.

2.2.2: Market Center Development and Management

57. In almost all rural areas of Ethiopia in general and the AGP woredas in particular, markets are in the open air, vulnerable to dirt and hazards such as wind, direct sun, and rain. These conditions are cumbersome for transactions, reduce product quality, and, when they are severe, prevent the market from operating. The AGP will support participatory baseline surveys to implement market center development, the development of appropriate an land use plan and market management strategy, and the construction and improvement of market centers.

58. **Institutional development and capacity building.** The AGP will support the establishment and/or strengthening of market infrastructure committees (road caretaking and market center management); provide appropriate training to relevant stakeholders in building, operating, and maintaining feeder roads and market centers; and link beneficiaries to credit services and other input providers to facilitate intermediate means of transport.

59. **Implementation arrangement.** At the federal level, the construction and rehabilitation of SSI schemes are under the jurisdiction of MoARD. At the regional level, however, construction of new SSI schemes are the responsibility of the Bureau of Water Resources (BoWR) in Amhara, Oromiya, and Tigray Regional States, whereas in SNNPR, the construction and rehabilitation of SSI schemes are the responsibility of the irrigation authority under the BoARD. Water harvesting and micro-irrigation technologies and watershed management all fall under the authority of BoARD in all four regions.

60. At the woreda level, implementation of irrigation schemes is limited to rehabilitation of existing schemes and construction of small traditional irrigation schemes that do not involve significant study and design. In cases where significant study and design are involved, the implementation falls under the jurisdiction of BoWR or BoARD as applicable, and responsibility for constructing and rehabilitating/improving irrigation schemes falls under the authority of both WOWR and WOARD in Amhara and Oromiya and WOARD in SNNP and Tigray. IWUG/As will be established and responsible for day-to-day management of the SSI schemes, including participatory O&M.

61. Road construction and maintenance falls under the jurisdiction of the ERA under the Ministry of Works and Urban Development (MoWUD) at the federal level, the Regional Rural Roads authority at the regional level, and the Woreda Office of Rural Roads at the woreda level. Small-scale feeder road construction and management will be implemented by the Woreda Office of Rural Roads, with support from zonal and regional rural roads authorities as needed. For day-to-day management of the feeder roads/footbridges, including participatory O&M, road caretaker committees will be formed.

62. No specific line department has a clear mandate to implement market center development. For capacity building, however, the responsible entities will be the marketing department under MoARD and BoARD. The Regional Agricultural Marketing and Promotion Agencies (RAMPAs), especially in Tigray and Oromiya, are very active in market center development, especially for export-oriented products. For AGP, in smaller rural areas (primary market centers), the kebele administrative body will be responsible for implementing the market centers, and in smaller towns where municipalities are active, the municipality will be responsible for

implementing market center development and management. For day-to-day management of the market center, including participatory O&M, market center management committee will be formed.

63. Implementing agencies for Component 2 at different levels are shown in Table A4.1.

Table A4.1: Implementing Agencies for Small-scale Rural Infrastructure Development and Management (Component 2)

Activity	Implementing agency at different levels		
	Federal	Regional/ Zonal	Woreda
Small-scale and micro-irrigation development and management	MoARD	BoWR in all regions except SNNPR, where it is the irrigation agency under BoARD	WOARD for Amhara, Oromiya, and SNNP; WOWR for Tigray
Soil and water conservation within the framework of watershed management	MoARD	BoARD	WOARD
Feeder roads, footbridges, and roadside drainages development and management	MoWUD, ERA	Regional Rural Roads Authority	Woreda desk/Office of Rural Roads
Market center development and management	MoARD marketing department	BoARD marketing department, RAMPAs	WOARD, marketing department

64. While the line departments are responsible for oversight and overall implementation of the activities under AGP, including contract management and preparation and evaluation of bids, most activities under SSI infrastructure and market infrastructure will be outsourced to contractors under three separate contracts as follows:

- (a) *Feasibility study and design and preparation of bidding documents*: This consultancy will be responsible for preparing detailed designs of executive drawings, technical specifications, contract documents, detailed cost estimates, and construction schedules for packages approved for implementation.
- (b) *Construction*: Under this contract, construction works will be implemented as per design in a timely manner.
- (c) *Construction supervision*: This consultancy will monitor and supervise work to ensure that contracts are executed according to specifications through a reporting and monitoring system, and it will keep the relevant implementing agency abreast of the progress made and challenges faced in order to seek timely solutions.

Component 3: AGP Management and Monitoring and Evaluation (US\$ 18.8 million; IDA/pooled: US\$ 9.3 million; USAID/UNDP/parallel: US\$ 8.4 million)

Sub-component 3.1: AGP Management (US\$ 11.8 million; IDA/pooled: US\$ 6.0 million; UNDP / parallel: US\$ 3.1 million)

65. This subcomponent will support effective coordination and management of the AGP at all levels of implementation, at federal, regional, zonal, and woreda levels. The AGP will be mainstreamed within the existing government structure as much as possible. An institutional assessment was undertaken jointly by MoARD/BoARD and CIDA. Additionally, procurement and financial capacity assessments of implementing institutions were undertaken by the World Bank team. These assessments suggest that capacity to implement AGP is somewhat weak. Therefore, Sub-component 3.1 includes a broad agenda for strengthening implementation capacity and for communicating and disseminating lessons from AGP implementation. Capacity-building activities include regular review and experience-sharing workshops; training in AGP manuals, procedures, processes and M&E; leadership and technical skills; technical assistance and mentoring for coordination units and implementation teams as necessary; a study of human resources management to enhance motivation among AGP implementers; and regular monitoring of capacity-building efforts.

66. This sub-component also supports the development of a strategy for communicating and disseminating lessons learned and implementation challenges/opportunities.

Sub-component 3.2: Monitoring and Evaluation (US\$ 7.0 million; IDA/pooled: US\$ 1.7 million; USAID / parallel: US\$ 5.3 million)

67. A system that establishes an effective M&E system and creates a learning environment is an important element of the AGP design. The specific activities to be covered under the proposed system are discussed below.

68. **AGP outcomes and impact.** The proposed system will monitor progress towards the PDO and AGP intermediate outcomes through a detailed baseline and two impact evaluations, one at mid-term and one at the end of implementation. The CSA will collect data for the three evaluations.⁷⁵ The analysis will be undertaken through parallel funding under ESSP Phase II.⁷⁶ A Rapid Baseline Survey was conducted during preparation to refine the AGP's design by identifying the specific conditions for agricultural growth in AGP target woredas, with particular emphasis on the roles of women and youths.

69. **AGP inputs and outputs.** The AGP M&E system will include a simple and user-friendly system for monitoring implementation progress (inputs and outputs), for which reporting formats

⁷⁵ As noted in the main text, CSA is the only agency qualified to undertake national surveys in Ethiopia. The development of the survey methodology is likely to require raw data from several prior CSA surveys, which are made available only for surveys carried out by CSA. Based on this justification, an exception to the eligibility criteria under paragraph 1.11 of *"Guidelines: Selection and Employment of Consultants by World Bank Borrowers"* will be sought.

⁷⁶ A collaborative program of capacity building, research, policy analysis, and knowledge dissemination conducted by IFPRI and EDRI with support from USAID, CIDA, DfID, and Irish Aid.

are being developed. The system will ensure that inputs/activities and outputs are delivered in a timely fashion and that the processes through which the stated objectives are to be realized are in place.

70. Participatory M&E, social accountability, and internal learning. Participatory monitoring and evaluation by beneficiaries and social accountability activities will ensure that beneficiaries are assessing their progress towards the objectives they set for themselves, ensure that they have a productive dialogue with service providers (DAs and line ministries), and will empower them to take corrective actions. These activities will ensure the efficient and transparent use of public resources towards the delivery of high-quality public services and sub-projects. The CLPP Manual—an element of the PIM—includes the key design elements of the participatory M&E and social accountability systems to be introduced under AGP and will be updated and improved as the project is implemented. To foster a learning approach, additional activities will be undertaken through USAID parallel funding, including stocktaking, case studies, participatory impact assessments,⁷⁷ related thematic studies (for example, cost-benefit analysis of irrigation sub-projects, impact of certain AGP interventions on women), and dissemination and dialogue on the findings. Finally, a communication strategy for the AGP will be developed and implemented in order to ensure strong AGP management and learning from the AGP experiences throughout the operation and beyond.

⁷⁷ Based on the successful model led by MoARD through the Livestock Policy Forum, participatory assessments of specific activities will be undertaken to measure the effects of certain interventions and to contribute, as agreed, to formal guidelines and best practice policies. The number of impact assessments undertaken will depend on demand and funding, but an initial program target would be 20. Although institutional details remain to be worked out, it is agreed that the Federal AGP Steering Committee will provide strategic advice and oversight.

Annex 4, Attachment 1: Overview of Detailed Component and Activity Structure

Table A4.1.1: Component 1: Agricultural Production and Commercialization

Sub-Component Outcome	Output	Activity
1.1 Institutional Strengthening and Development Farmers have improved access to services through support from key public and private institutions.	1.1.1 ARDPLACs strengthened and made operational.	1.1.1.1 Establishment and strengthening ARDPLACs.
	1.1.2 Key public advisory services strengthened to be more demand-driven for enhanced productivity and value addition.	1.1.2.1 Strengthening of public extension services.
		1.1.2.2 Strengthening of soil fertility management services.
		1.1.2.3 Strengthening of animal health services.
	1.1.3 Farmer's organizations established and/or capacitated.	1.1.3.1 Mobilization and support of group formation.
		1.1.3.2 Strengthening of farmer organizations.
		1.1.3.3 Strengthening of agencies supporting farmer organizations.
1.2 Scaling up Best Practices Sub-projects for improved productivity, value addition and marketing realized and sustainably managed.	1.2.1 Best practices identified and sub-projects prepared.	1.2.1.1 Identification and compilation of best practices.
	1.2.2 Implementation support provided.	1.2.1.2 Preparation of farmer sub-projects.
		1.2.2.1 Training, experience sharing, demonstration and other extension support for implementation of best practices.
		1.2.2.2 Support to innovation and adaptive research.
1.3 Marketing and Agribusiness Development Key selected value chains strengthened.	1.3.1 Agribusinesses along value chains of selected commodities are strengthened.	1.3.1.1 Establishment and operationalization of innovation and demonstration funds.
		1.3.1.2 Private sector capacity building and technical assistance.
		1.3.1.3 Public sector capacity development for service provision.
		1.3.1.4 Promoting linkages to credit.
		1.3.1.5 Sectoral analysis of constraints and value chain development.
	1.3.2 Supply systems of key inputs (improved seeds and livestock breeds) strengthened.	1.3.2.1 Increasing seed (including forage) availability.
		1.3.2.2 Livestock breed improvement.

Table A4.1.2: Component 2: Small-scale Rural Infrastructure Development and Management

Sub-Component Outcome	Output	Activity
2.1 Small-scale Agricultural Water Development and Management Demand-driven infrastructure investments for improved agricultural productivity realized and sustainably managed.	2.1.1 Small-scale and micro-irrigation developed.	2.1.1.1 Establishment and /or strengthening of Water User Associations.
		2.1.1.2 Improvement and rehabilitation of existing SSI schemes.
		2.1.1.3 Establishment of small-scale and micro-irrigation.
		2.1.1.4 Improvement of on-farm irrigation water management.
		2.1.1.5 Capacity building of public and private institutions.
	2.1.2 Soil and water conservation supported.	2.1.2.1 Extension support for improved soil and water conservation.
		2.1.2.2 Communal land development.
2.1.2.3 Institutional development and capacity building in watershed management.		
2.2 Small-scale Market Infrastructure Development and Management Demand-driven infrastructure investments for improved access to market realized and sustainably managed.	2.2.1 Feeder road development supported.	2.2.1.1 Construction and rehabilitation of feeder and farm access roads, footbridges.
		2.2.1.2 Establishing and capacitating road maintenance groups for repair and maintenance of community-owned transport infrastructure.
	2.2.2 Market center development supported.	2.2.2.1 Construction and improvement of market centers.
		2.2.2.2 Establishment and/or strengthening market center management committees.

Table A4.1.3: Component 3: AGP Management, Monitoring and Coordination

Sub-Component Outcome	Output	Activity
3.1 AGP Management AGP efficiently and effectively managed to achieve results with communication and knowledge management integrated in all aspects of AGP management.	3.1.1 AGP management and coordination structures established and operational	3.1.1.1 Establishment of steering committees and technical coordination units/teams.
		3.1.1.2 Planning, follow-up on implementation, technical backstopping, supervision, reporting, etc.
		3.1.1.3 Provision of physical inputs (vehicles, office furniture, equipment, etc).
	3.1.2 Capacity for AGP management built.	3.1.2.1 Sensitization, awareness creation and training on AGP approaches and process.
		3.1.2.2 Human resource development through training, improvements in human resource management, and technical assistance/mentoring.
		3.1.2.3 CB on social and environmental safeguard as per the recommendation of ESMF.
		3.1.2.4 Regular monitoring of capacity building efforts.
3.1.3 Lessons learned from AGP implementation widely disseminated.	3.1.3.1 Knowledge management and dissemination (UNDP parallel funding).	
	3.1.3.2 Development and implementation of communications strategy.	
3.2 Monitoring and Evaluation M&E System operational, providing regular feedback for AGP steering and impact assessment.	3.2.1 Regular follow up on implementation progress and achievement of AGP outcomes.	3.2.1.1 Monitoring progress towards the PDO as per indicators in results framework.
		3.2.1.2 Monitoring implementation, particularly inputs and outputs.
		3.2.1.3 Participatory M&E, social accountability, and internal learning.

Annex 4, Attachment 2: Woredas selected for the AGP

Table A4.2.1: AGP regions, zones, and woredas

	No	Zone	AGP Woreda		No	Zone	AGP Woreda
Oromiya	1	North Shewa	Hidebu-Habote	Amhara	1	West Gojam	Jabi-tehnane
	2		G/Jarso		2		Bure
	3		Yaya Gulele		3		Wenebrema
	4	West Shewa	Dendi		4		Debube Achefer
	5		Ambo		5		Semin
	6		Toke Kutaye		6		Bahir-DarKetma Zuria
	7	South West Shewa	Bacho (Tulu Bolo)		7	East Gojam	Dejene
	8		Wenchi		8		Enmaye
	9		Weliso		9		Debre Elias
	10	East Shewa	Ada'a		10	Awi	Anikasha (Ankasha)
	11		Liban		11		Gwangwa (Guangua)
	12		Gimbichu		12		Danegela (Dangila)
	13	East Wollega	Gutu Gida		13		Jawi
	14		Diga		14	Semen Gondar	Taqusa
	15		Wayu Tuqa		15		Metma (Metema)
	16	Horo Guduru Wollega	Guduru		16		Qura
	17		Jima-Genet		17	Alefa	
	18		Horo		18	Debub Gondar	Dera
	19	Illu Aba Bora	Gechi		19	North Shewa	Efratana- Gidim
	20		Bedele		20		Anitsokiya-Gemza
	21		Dhedhesa		21		Qewt
	22	Jimma	Goma		22		Tarma Ber
	23		Gera		1	Kaffa	Chena
	24		Limu saqaa				2
	25	Arsi	Limu-Bilbilo		3	Gurage	Enemor na ener
	26		Shirka		4		Endegeng (Endegegn)
	27		Munesa		5	Silte	Merab Azernet
	28	Dodola	6		Misrak Azernet		
	29	West Arsi	Adaba		7	Sidama	Gorche (Shebedino)
	30		Kofele		8		Malga (Malga)
	31	Bale Zone	Sinana		9		Wondo Genet
	32		Gasera		10	Dawro	Esira (Isara)
	33		Agarfa		11		Konta
	34	Special	Welmera		12	Debub Omo	Debub Ari
Tigray	1	Southern	Alamata	13	Semen Ari		
	2		Raya/Azebo	14	Bench Maji	Debub Bench	
	3		Ofla	15		Sheye bench	
	4		Enidemhoni	16	Gedeo	Bule	
	5	Tsegde	17	Gedeb			
	6	Western	Welqayt	18	Special Woredas	Yem	
	7		Qfta humra	19		Besketo	
	8	North Western	Tahtaye-adiyabo	83 woredas in total			

Annex 4, Attachment 3: List of sub-projects eligible for support under Sub-component 1.2 Scaling up Best Practices

I. Indicative Positive List (not limiting)

- 1. *Proposal aimed at Improving farm Productivity/Profitability***
 - a. Livestock
 - i. Animal fattening (cattle; small ruminants)
 - ii. Milk production
 - iii. Poultry production
 - iv. Honey production
 - v. Aquaculture (fish ponds; fish culture in man-made ponds, natural ponds and mini-lakes)
 - b. Crop production (main project support to include extension support and training, including exposure visits; technologies to be promoted will emphasize integrated approaches to nutrient, pest/disease, water and land management)
 - i. Cereals (teff, maize, wheat, barley, sorghum)
 - ii. Potato
 - iii. Tomato
 - iv. Onion
 - v. Others
 - c. Increased planting material/seed/breed multiplication (possibly as an income generating activity; AGP support to include extension support, business development plan, if needed, training, provision of limited improved genetic stock (breeder's/basic seed, disease free planting material, improved breeds) and facilitation of linkages with post-harvest processing, input supplies, including credit, markets etc.)
 - i. Community-based seed production
 - ii. Community nurseries (fruits, vegetables, coffee, tree seedlings)
 - iii. Breed multiplication
 - iv. Fingerling production
 - v. Mini hatchery
 - vi. Others
 - d. Production of niche products (AGP to provide technical advice, training, initial planting material, facilitate market linkages)
 - i. Organic produce
 - ii. Medicinal plants
 - iii. Others
 - e. Natural resources management related activities
 - i. Rehabilitation/reclamation of acid soils (lime treatment; group-based support both to groups owning a contiguous piece of land or individual plots, but willingness to go for group procurement, transportation and distribution; project support to include technical advice, training and contribution of up to 30% of total cost of reclamation cost if undertaken as a part of community-based plan for soil and water conservation in the context of watershed development approach)

- ii. Vermiculture (project to assist with design and construction of vermiculture sheds, procurement of ‘mother’ stock of earthworms, technical advice and training)
 - iii. Composting pits (project to assist with technical advice and training)
 - iv. Others
- 2. **Processing/Value Addition** (Sub-projects to assist with improved technologies, provide technical advice and training and facilitate market linkages, where needed)
 - a. Livestock
 - i. Milk collection/distribution and processing in to higher value products (butter, yogurt, cheese)
 - ii. Improved mini slaughter house and hygienic meat storage and marketing
 - iii. Honey processing
 - iv. Others
 - b. Crops/Horticulture
 - i. Fruit/vegetable processing (dried fruits, pickled vegetables, pickles, jams and jellies)
 - ii. Flour
 - iii. Milled pulses
 - iv. Others
- 3. **Post-harvest Activities** Requiring small civil works (AGP to support with design, as well as feasibility study, contribute up to 30% towards cost of construction material for common facilities, construction supervision, provide improved technologies, where needed, and training)
 - a. Livestock
 - i. Community cattle crash
 - ii. Others
 - b. Crops/Horticulture
 - i. Packing sheds (e.g. fruits and vegetables requiring cleaning, grading, packing and short-term storage (maximum 6-12 hours)
 - ii. Warehousing for inputs and collective marketing
 - iii. Grain storage (for food security and group storage for increased profitability)
 - iv. Others

II. Negative List

- a. Purchase of land (involving project support)
- b. Sub-project proposed by fewer than 10 farmers/households
- c. Construction of residential accommodation for family or larger group
- d. Commercial activities not related to or directly supporting agriculture including value-addition

Annex 5: Project Costs
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

Table A5.1: Costs of Agricultural Growth Project

Component /Sub-component	Total US\$ million
1. Agricultural Production and Commercialization	
1.1 Institutional Strengthening and Development	36.7
1.2 Scaling up Best Practices	28.2
1.3 Market and Agri-business Development ²	50.8
	115.7
2. Small Scale Rural Infrastructure Development and Management	
2.1 Agricultural Water Development and Management	80.3
2.2 Market Infrastructure Development and Management	51.1
	131.4
3. AGP Management and Monitoring and Evaluation	
3.1 AGP Management	11.4
3.2 Monitoring and Evaluation ²	6.7
	18.1
Total Baseline Cost	265.2
<i>Physical Contingencies</i>	3.7
<i>Price Contingencies</i>	10.3
4. Unallocated	2.0
Total Costs¹	281.2
Total Financing Required³	260.4

¹Identifiable taxes and duties are US\$ 29.0 million, and the total AGP cost, net of taxes, is US\$ 252.9 million. Therefore, the share of project cost net of taxes is 89%.

²To be funded largely through parallel arrangements by USAID and others.

³Excluding beneficiary contribution estimated at US\$ 20.8 million (local costs).

1. The AGP costs are based on the overall allocation by IDA and DPs of about US\$ 253.8 million over a five years period. The budget summarized (Table A5.1) above includes the government's contribution, which covers part of the operating costs, the participation of its staff in AGP coordination and implementation, and operating costs for road, market and other infrastructures. In addition, it includes beneficiaries' contribution to farmer sub-projects under

Sub-component 1.2, and to the construction and operating costs for small-scale infrastructures under Component 2, both in kind and in labor.

2. **Financing.** The financing institutions of the AGP, as well as their respective contributions, are presented in Table A5.2. IDA financing is US\$ 150 million, and another about US\$ 50 million is expected to come from DPs such as CIDA and others that will pool their funds with IDA resources through a Bank-administered MDTF. Contributions of about US\$ 2.8 million have been received from UNDP and the Government of Spain through a parallel UNDP-executed MDTF for the AGP. USAID has committed to provide support to the AGP through parallel funding mechanisms of up to US\$ 50 million, in particular for Sub-components 1.3 and 3.2.

3. However, it should be noted that the AGP is designed to be scalable. DPs including CIDA have indicated that they will support the AGP through both the pooled and parallel funding mechanism. Another potential source of additional funding is the GAFSP. The search for additional funding will continue throughout implementation to fill the financing gap and to expand the geographic scope of the AGP.

Table A5.2: AGP Financing Plan by Component and Sub-component

	IDA US\$ million	Pooled MDTF US\$ million	USAID, other parallel US\$ million	GoE and Beneficiaries US\$ million	Total US\$ million
1. Agricultural Production and Commercialization					
1.1 Institutional Strengthening and Development	20.7	13.8	-	3.1	37.6
1.2 Scaling up Best Practices	10.0	16.9	-	2.8	29.7
1.3 Marketing & Agri-business Development	4.8	1.2	45.0	-	51.0
1.3.1 Agribusinesses along value chains	-	-	40.0	-	40.0
1.3.2 Supply systems of key inputs	4.8	1.2	5.0	-	11.0
(i) Increasing seed availability	-	-	5.0	-	5.0
(ii) Livestock breed improvement	4.8	1.2	-	-	6.0
	35.5	31.9	45.0	5.9	118.3
2. Small Scale Rural Infrastructure Development and Management					
3.1 Agricultural Water Development and Management	72.7	3.1	-	11.2	87.0
3.2 Market Infrastructure Development and Management	32.7	12.8	-	9.6	55.1
	105.4	15.9	-	20.8	142.1
3. AGP Management and Monitoring and Evaluation					
3.1 AGP Management	6.0	1.6	3.1	1.1	11.8
3.2 Monitoring and Evaluation	1.1	0.6	5.3	-	7.0
3.2.1 Impact Evaluation	1.1	0.6	0.3	-	2.0
3.2.2 Input / Output Monitoring	-	-	-	-	-
3.2.3 Participatory M&E, Internal Learning, etc.	-	-	5.0	-	5.0
	7.1	2.2	8.5	1.1	18.8
4. Unallocated	2.0	-	-	-	2.0
Total Costs	150.0	50.0	53.5	27.8	281.2

Note: Activity 3.2.2 Input / Output Monitoring is not costed separately; but it is part of overall AGP management, i.e. Sub-Component 3.1.

Annex 6: Implementation Arrangements

ETHIOPIA: AGRICULTURAL GROWTH PROJECT

1. **Implementation of the AGP will rely on existing GoE structures, with the exception of parallel-funded activities (USAID, UNDP).** Overall implementation responsibility rests with the MoARD. Nevertheless, implementation will be decentralized and will therefore involve the regional Bureaus of Agriculture and Rural Development (BoARDs) for Oromiya, Amhara, SNNPR, and Tigray Regions and 83 Woreda Offices of Agriculture and Rural Development (WOARDs), Regional Livestock and Marketing Agencies (where they are separate from BoARDs), regional soil laboratories, Bureaus/Offices of Water Resources Development in the four regions and 83 woredas, Regional Rural Roads Authorities and their equivalent woreda offices, and a number of farmer groups. Zonal desks for Agriculture and Rural Development (ARD), Rural Roads, and Water Resources Development will provide technical support to woredas. Additionally, the Federal and Regional Cooperative Agencies, the Central Statistics Agency (CSA), and the National Soil Laboratory will implement some discrete and specialized activities as service providers through MoUs with MoARD and BoARDs.

2. The roles and responsibilities of implementing institutions are described in detail in the AGP Project Implementation Manual (PIM). The implementation arrangements by major intervention can be summarized as follows:

- **Strengthening key public advisory services.** The WOARD's extension process and animal health unit, together with the health facilities, will plan for, organize, and implement most institutional strengthening initiatives for delivery of these key public services, starting with a needs assessment. They will be supported by the Regional BoARD and ZOARDs in delivering training, particularly training of trainers, engaging service providers,⁷⁸ organizing experience-sharing and discussion fora, procurement of equipment, and capacity building of regional institutions such as soil laboratories. At the federal level, MoARD's directorates of extension and animal and plant health regulation will provide additional support in the form of guidance on interventions, needs assessments, manual development and training of trainers, specifications for bulk procurement, and other themes.
- **Support to common interest groups and/or cooperatives.** Many agencies at the woreda level will be involved in promoting the establishment of common interest groups and cooperatives by creating awareness of the benefits and principles of organizing into groups/cooperatives; mobilizing interested persons to establish such groups/cooperatives; supporting the development of internal regulations and by-laws, and other aspects of organization. The agencies involved in these activities include the woreda offices for women's affairs, youth affairs, cooperative promotion, and micro- and small-scale enterprise development. Once groups and cooperatives form, the Office for Cooperative Promotion will provide capacity building. The AGP will build woreda-level capacity to support such grassroots institution building by engaging the federal and regional agencies for cooperative promotion as service providers.
- **Scaling up best practices and innovations.** Implementation responsibility for this intervention rests with the extension system at the kebele level (KDCs and DAs), with support from the WOARD. Additionally, in the specific case of the financing of sub-

⁷⁸ For example ATVETs, NGOs, or MFIs could be engaged to provide some of the training to DAs.

- projects, the woreda SC or the ARDPLACs (for sub-projects related to innovation and research) will be responsible for approving sub-projects and disbursing funds to them.
- **Agribusiness development along value chains.** Support to agribusiness development will not be provided directly through the government system. Rather, this support will be provided through a contracted third party working in collaboration with service providers along the value chains for key agricultural commodities. Parallel funding from USAID will be used.
 - **Strengthening supply systems for key inputs (improved seed and livestock breeds).** Support to strengthen supply systems for improved seed will be provided through a parallel mechanism buy USAID. Support to strengthen supply systems for improved livestock breeds (establishment of regional AI centers, bull/dam holding areas, regional semen collection centers, and multiplication centers) will be coordinated by the (federal) Kaliti Artificial Insemination Center. However, overall responsibility for implementation will be with the Regional BoARDS' livestock development processes and, in Oromiya, the Livestock Development Agency. Complementary studies (related to promoting more appropriate private roles in the multiplication of improved livestock breeds and evaluation of initial investments in AI centers) will be undertaken by the federal AGP-CU.
 - **Investment in small-scale rural infrastructure.** Participatory planning to identify investment projects to be financed by the AGP will be carried out by the kebele extension system (KDCs and DAs) with support from the WOARDs. Depending on the type of infrastructure, activities related to civil works, formation of user groups, and appropriate management of infrastructure will be implemented through WOWRs (small-scale and micro-irrigation), the WOARD natural resource management process (soil and water conservation), Woreda Rural Roads Authorities (rural roads), and the WOARD/marketing process (marketplaces). Further support will be provided by the related Regional Bureaus/Agencies, which will also manage capacity building for the woreda-level support institutions under them. The Woreda SC will approve all infrastructure-related investment projects.

3. **Given the multi-sectoral nature of AGP implementation, CUs or focal points as well as high-level SCs will be established at the federal, regional and woreda levels.** These coordination and oversight bodies will be supported by technical committees with membership from all implementing institutions and service providers and by the ARDPLACs, which are multi-stakeholder advisory bodies that include private enterprises and CSOs. The coordinators heading the AGP-CUs or the zonal/woreda focal persons will be responsible for establishing an active link with the technical committees and the ARDPLACs. The roles and responsibilities as well as composition of CUs and SCs are summarized below and described in further detail in the PIM.

4. **SCs at the federal, regional and woreda levels for oversight and major decision making.** Federal and regional SCs will oversee activities funded through both the pooled and parallel funding mechanisms. These committees will review and approve annual work plans, performance monitoring plans, and quarterly and annual progress reports; oversee bi-annual joint review and implementation support missions; identify and promote implementation and adoption of best practices and policies; ensure that activities are coordinated well with other development programs; and ensure that interventions are carried out and measures taken that will result in sustainability. The Woreda SC will also review and approve annual work plans and budgets, review implementation reports, and ensure multi-sectoral coordination. It will, additionally, be a

signatory to KDCs' agreements, approve sub-projects, and follow up on their implementation. The SCs will meet every quarter.

- a. The federal SC will be chaired by the State Minister for Agricultural Development of MoARD. Membership will include Directors of Agriculture Extension, Natural Resource Management, Agricultural Marketing, Animal and Plant Regulatory, Women's Affairs, and Planning and Programming; and a representative of the Directorate for Cooperation (MoFED); the Directorate for Agro-industry (MoTI); the FCA; the Federal Micro and Small Enterprises Development Agency;⁷⁹ and the ERA; the Chairpersons of the Regional SC or the designee of Oromiya, Amhara, SNNPR, and Tigray; and, all participating DPs. The CU Coordinator (see below) will serve as secretary.
- b. The AGP regional SC will be chaired by the Regional President or his or her designee. The composition of the regional SC will include all heads of regional implementing institutions and service providers (BoARD, BoTI, Regional Livestock and Marketing Agencies, Regional Soil Laboratories, Bureaus / Agencies of Cooperative Promotion, participating MFIs), and Women's and Youth Affairs Offices. Membership of the regional SC will also include non-voting members including the chief of party of the firm contracted to implement AGP activities under USAID funding and from the private stakeholders in the value chains to be supported through AGP, cooperative unions, and CSOs. The regional CU Coordinator will serve as secretary.
- c. The AGP Woreda SC will be chaired by the woreda Administrator and members will include: (a) Heads of WOARDs (the head will serve as secretary), WOFED, and all line offices engaged in implementation of AGP; (b) two members from the local Farmers' Cooperative Union; and, (c) representatives of local NGOs, women's and youth associations, and the private sector. Representatives from the cooperative sector, private businesses, NGOs, and associations will be non-voting members.

5. **CUs** will be established at the federal and regional levels. The federal CU will be established before effectiveness and will be fully staffed by October 30, 2010, at the latest. The regional CUs will be established, at the latest, three to two months after effectiveness. The CUs will be responsible for overall coordination (inter-agency and within MoARD/BoARDs), planning, implementation support (including follow-up of safeguards and gender issues), monitoring of implementation progress and impact, and reporting on implementation performance as well as procurement and financial management.⁸⁰ At the federal level, the CU will be primarily responsible for activities implemented through pooled funding. Day-to-day management of parallel-funded activities will be the responsibility of a third party contracted by USAID. The Coordination Units will be organized as follows:

- The federal CU is chaired by a coordinator assigned from within MoARD. Other members include a financial specialist, M&E specialist, procurement specialist,

⁷⁹ Both FCA and FeMSEDA have a role in AGP related to farmer group (FCA) and small business (FeMSEDA) development, but greater consultation on their active engagement in oversight of AGP is required.

⁸⁰ The CUs will be provided with support from the M&E Team of the Planning and Programming Directorate/Process, as well as the Procurement, Finance & Property Directorate/Process, and Information Technology Unit from within MoARD/BoARDs.

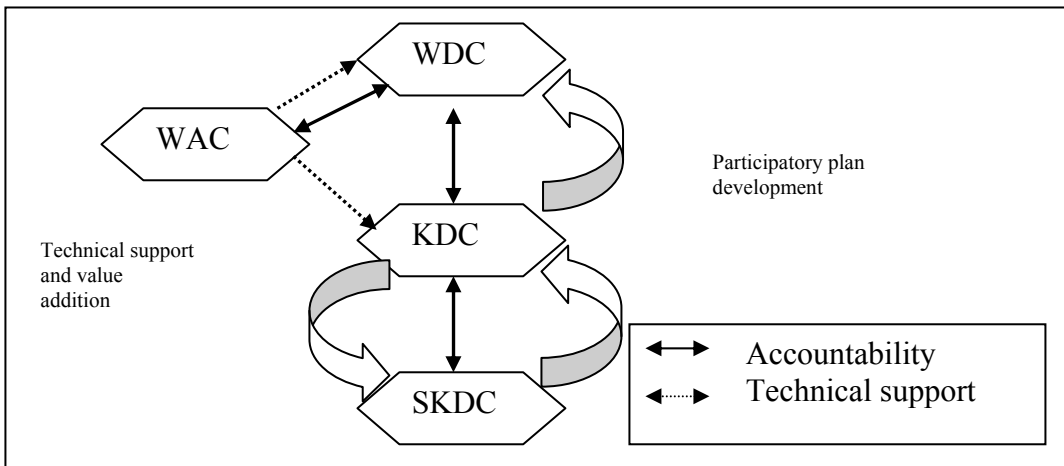
safeguards and gender specialist, capacity building/training coordinator, and technical specialists on (a) rural infrastructure, and (b) production/commercialization.

- The regional CU is chaired by a coordinator assigned from within the BoARDs. Other members include a financial specialist,⁸¹ procurement specialist, M&E specialist, and a capacity building/training specialist. The AGP will provide technical assistance for additional expertise as necessary (such as a gender specialist).

6. **Focal persons at the zonal and woreda levels.** At the zonal level, one focal person from within the ZOARD will coordinate implementation support and technical backstopping to the woredas in addition to consolidating and validating reports. At the woreda level, focal persons fully dedicated to the AGP will be assigned for coordination of implementation and/or technical backstopping, consolidating reports, and financial management and reporting. Two focal persons will be fully dedicated to AGP at the woreda level, one from within WOARD to coordinate implementation and one from within the Woreda Office of Finance and Economic Development for financial management and reporting.

7. **Kebele and Sub-kebele Development Committees** will support community-level participatory planning and implementation (Figure A6.1).

Figure A6.1: Kebele and Sub-Kebele Support for Community Participatory Planning and Implementation



- (a) **Function:** The Kebele Development Committee (KDC) is responsible for preparing development plans based on community priorities, including consolidation and appraisal of individual plans from sub-kebeles; seeking approval of plans from the Kebele Council; following up with AGP-WSC for approval of Kebele Development Plans and individual sub-projects; entering into agreement with the AGP-WSC for approved activities in the plan and budget allocations; carrying out and overseeing the implementation approved activities in the plan; keeping records and preparing necessary reports; following up on the proper use of AGP resources; and assisting in capacity-building initiatives at kebele and sub-kebele levels.

⁸¹ Due to the large number of participating woredas the regional AGP-CU in Oromiya and possibly also Amhara Regions will include two financial specialists.

- (b) **Composition:** The KDC is chaired by the kebele Chairperson and the lead DA will be the secretary. The KDC will have representation from the Primary Cooperatives, a maximum of two representatives from any other farmer group, and three representatives each from farm households and community women and youths.

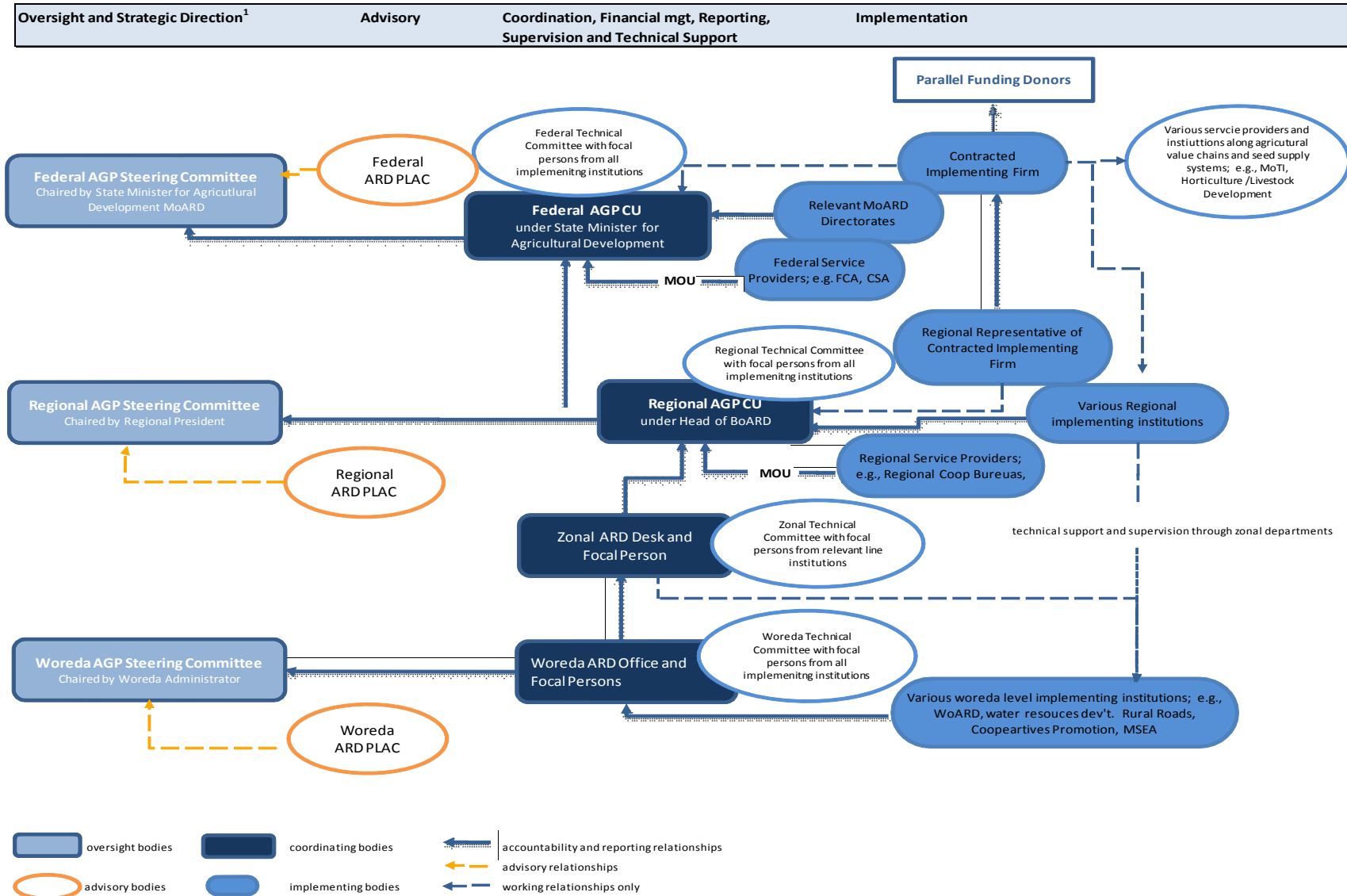
8. **Technical committees** at the federal, regional, zonal, and woreda levels will be constituted and functions as follows:

- (a) **Function:** The committees will support the AGP-CUs and AGP focal person(s) in technical backstopping for and supervision of lower levels; coordinate AGP implementation within their respective institutions (including institutional capacity building as appropriate); provide advice to steering committees on AGP activities; and produce reports on implementation progress.
- (b) **Composition:** The committees will include focal persons drawn from each implementing and service-providing agency, including the firm contracted to implement activities under parallel funding. At the federal level, the Technical Committee for the AGP will be under the RED&FS Agricultural Growth Technical Committee core team and will include the chief of party of the firm contracted to implement activities under parallel funding. At the regional and zonal levels, the Technical Committees will be established with membership from relevant processes of BoARDS, the Livestock Agency (if separate from BoARD), Bureaus of Water Resources Development, RRA, Bureaus of Cooperative Promotion, participating MFIs, soil laboratories, Breed Improvement Centers, and regional representatives of the implementing firm for parallel funding. At the woreda level, the Technical Committee will include focal persons from all implementing agencies.
- (c) **Frequency of meetings:** Technical Committees will meet monthly at the federal, regional, and zonal levels and weekly at the woreda levels.

9. **Service providers** such as federal/regional Cooperative Agencies, CSA, and MFIs will provide specialized services such as promoting cooperatives, undertaking surveys, and improving access to finance. These agencies will interact with the AGP through a MoU signed with MoARD or BoARDS that outlines activities to be carried out with the associated budget as well as agreements on operational modalities, including procurement, financial management, and reporting.

10. The AGP institutional arrangements are shown in Figure A6.2.

Figure A6.2: AGP Implementation Arrangements



¹Approval of annual workplans and budgets, review of implementation progress, promotion of best practices, coordination with other development programs, ensuring program sustainability

Annex 7: Financial Management and Disbursement Arrangements
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

A. Introduction

1. A financial management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and supporting guidelines. The objective of the assessment was to determine whether the implementing entities have acceptable financial management arrangements to ensure: (a) that funds are used only for the intended purposes in an efficient and economical way; (b) that accurate, reliable, and timely periodic financial reports are produced; and (c) that entities' assets are safeguarded.

2. An effective financial management system is vital for the project because of the need to deliver services quickly to a wide variety of stakeholders. The objectives of the project's financial management system are to: (a) ensure that funds are used only for their intended purposes in an efficient and economical way while implementing agreed activities; (b) enable the preparation of accurate and timely financial reports; (c) ensure that funds are properly managed and flow smoothly, rapidly, adequately, regularly, and predictably to implementing agencies at all levels (federal, regional, and woreda as well as others); (d) enable project management to efficiently monitor project implementation; and (e) safeguard the project's assets and resources.

3. In conducting the assessment, the Bank team visited MoARD, MoFED, selected BoARDS, BoWRs, RRAs, zones, WOFEDs, livestock agencies, and marketing agencies. The team also met with DPs and discussed the various project issues and the way forward. Lessons learned from other projects implemented by MoARD were taken into consideration and used in designing the risk-mitigating measures.

B. Project background

4. The FM arrangements for the AGP will follow Channel II fund flow arrangement of the government where the parent Ministry of the project (MoARD) will be responsible for receiving the donor transfers and making direct transfers to regions, Woredas and other implementing entities in the project. The AGP has its own FM Manual, which is included in the PIM and describes the budgeting, accounting, internal control, fund flow, financial reporting, and auditing aspects of the project. The manual also outlines the relationship between all implementing agencies and specify how to account for community contributions to the project. The FM arrangements described in the FM Manual cover all AGP funds—in other words, the pooled project costs (which included those financed by the GoE and by all partners pooling their finance for the AGP). The FM design for the project thus seeks to harmonize DP support.

5. A FM Manual for the AGP has been prepared and reviewed by the Bank; comments provided by IDA have been incorporated into the final version of the FM Manual.

C. Country issues

6. The GoE has been implementing comprehensive reforms of public financial management (PFM), with support from DPs, including the World Bank. The main instrument of reform has been the Expenditure Management and Control sub-program of the government's Civil Service Reform Program. This effort is supported by the IDA financed-PSCAP and PBS II Project.

7. The first phase of the reform (transaction platform) encompassed budgeting, planning, accounting, and information systems. The second phase of the reform, the policy platform, is continuing at the sub-national level with reforms to the block grant mechanisms and a move towards more performance-based budgeting. Government leadership and ownership regarding ongoing PFM reform efforts are both high.

8. The latest PFM study for Ethiopia, completed in 2007, used a Public Expenditure and Financial Accountability (PEFA) performance measurement framework. The assessment was conducted at the federal and regional levels (covering seven regions), and two separate reports were issued. The study noted Ethiopia's significant progress in strengthening PFM at the federal and regional levels. It cited improvements in budgeting and accounting reform. The classification system used in the budget meets international standards. Fiscal relations between the federal government and the regions are transparent. The budget process is well ordered. The budget calendar generally adhered to, and a budget circular is issued to budgetary institutions. Cash flow management may need improvement. The government posts financial information, including the annual budget, on its website and its official Gazette. However, there is scope for improvement in public access to fiscal information. The study found that payroll and procurement controls were satisfactory, whereas controls for non-salary expenditure showed some weaknesses. Further improvements were required in the adequacy and quality of financial reporting (reducing delays in within-year and annual financial reporting), internal audit, external audits, and the scrutiny of public finances.

9. The PFM study also noted that regional performance of PFM reform varies. SNNP and Tigray show improvement in the overall public finance function and a consequent reduction in fiduciary risk. Other regions such as Amhara and Oromiya have also shown significant progress in PFM. Others at an earlier stage of investment in PFM have also demonstrated progress. According to the government, almost all regions are at the same level in PFM reform. Regions have improved in budgetary transparency, budget preparation, internal audit scrutiny and follow up, timeliness of within-year and annual financial reports, and mutual supportiveness of the federal and regional Auditor Generals. Nonetheless, the quality and nature of internal audit required improvement. Untimely clearance of suspense accounts and significant delays in producing timely in-year and end-of-year information in some regions were also major weaknesses. There are capacity issues in reviewing annual budgets by the legislature in as much as supplementary budgets are endorsed by the Parliament. All regions continue to have capacity and staffing issues in audit. An insufficient number of qualified professional staff at the sub-national level, particularly at the woreda level, and the lack of basic office infrastructure are major challenges. While the financial discipline associated with government funds has improved, the use of other parallel FM mechanisms (as in some projects financed by DPs) has had the potential to increase fiduciary risk. The use of alternative FM arrangements also creates additional workload in areas where capacity is already stretched.

10. The government noted that since the last diagnostic work which was carried out in 2007 PEFA, largely the basis on which the above analysis has been conducted, there has been significant improvement in the PFM. Further diagnostic work conducted by the Bank and DPs in collaboration with the government will help all concerned parties to secure more current information on PFM in Ethiopia.

D. Project financial management arrangements

Budgeting

11. The Ethiopian budget system reflects the fiscally decentralized structure. The budget is processed at the federal, regional, zonal (in some regions), woreda, and municipality levels. Budget procedures are documented in the Budget Manual.⁸² The federal budgeting process usually starts by issuing the budget preparation note to the Budgetary Institutions. The Budgetary Institutions prepare their budgets in line with the budget ceilings and submit these to MoFED within six weeks following the budget call. The budgets are reviewed initially by MoFED and then by the Council of Ministers. The final recommended draft federal budget is sent to Parliament in early June and is expected to be cleared at the latest by the end of the previous Ethiopian Fiscal Year.

12. Budget preparation at MoARD begins from the different units and project offices under its administration. Each unit prepares its budget and submits it to the Ministry's planning department. Budgets are based on valid assumptions and developed by knowledgeable individuals. Actual expenditures are compared with the budget for significant variances using an Excel spreadsheet and variances are examined by the head of finance.

13. In line with the decentralized approach of the AGP, each woreda will prepare its own annual work plan, which is submitted to the region after being cleared by the woreda rural development committee. Each regional BoARD will prepare a consolidated annual work plan and budget from the woredas and other implementing agencies in the region and will submit it to the AGP-RSC for approval. The budget should be done for all components in detail.

14. MoARD, after receiving the budgets from each region, will consolidate and prepare one final annual budget and work plan for the whole AGP and submit it to the AGP-SC. The budget should be prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance. After approval by the committee, the budget will be submitted to MoFED for final approval. The AGP budget will be proclaimed in the budgets of the Federal government in the name of MoARD.

15. The detailed budget should be disseminated to all implementing agencies at all levels for proper follow-up. Actual expenditures should be compared to the budget on a quarterly basis and explanations should be sought for significant variations from the budget. The FM Manual describes detailed procedures for budget preparation and approval.

⁸² Revised Federal Budget Manual.

16. Detailed AGP work plans, costs, and procurement plans are being developed and will be finalized and agreed by effectiveness. This information is the basis for the AGP costs included in the PAD (which will also be reflected as the program budget in financial reports). Activities and costs noted in the work plans and budgets will be “eligible expenditures” under the AGP.

17. The government’s regular budget execution/utilization reports and IFRs as well as progress reports will be used for budget monitoring. These reports are discussed in the section on Financial Reporting below.

Accounting

18. The Ethiopian Government follows a double entry bookkeeping system and modified cash basis of accounting, as documented in the government’s Accounting Manual,⁸³ and these procedures have also been implemented in many regions. The main elements of the accounting reform are the adoption of (a) a comprehensive Chart of Accounts consistent with the budget classification; (b) a system of ledgers accommodating all types of accounts (including transfers, assets, liabilities, and fund balance in addition to revenues and expenditures); (c) double entry bookkeeping (thus, a self-balancing set of accounts); (d) a system of control for budgetary commitments (recording commitments as well as actual payments); (e) modified cash basis transaction accounting; and (f) revised monthly report formats to accommodate double-entry bookkeeping and commitment control and permit better cash control. The government’s Accounting Manual provides detailed information on the major accounting procedures.

19. As noted, the AGP will have its own FM Manual, which will be prepared under the scope of the country’s accounting system with some modifications to specifically align it to the AGP’s needs. The manual should incorporate mechanisms for properly recording transactions, including the allocation of expenditures in accordance with the respective project components, disbursement categories, and sources of funds. The Chart of Accounts for the AGP should thus be developed to adequately and efficiently account for transactions and to report on project activities. Monthly, quarterly, and annual reports will be produced directly from the financial management system and thus a well-developed Chart of Accounts is crucial.

20. Accounting centers for AGP funds include: (a) MoARD, (b) BoARDs, (c) Zonal Agricultural and Rural Development Desks, (d) woredas, (e) BoWRs, (f) RRAs, and (g) livestock and marketing agencies in Oromiya and Tigray. All these institutions will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM Manual. Arrangements for consolidation of AGP financial information are discussed under Financial Reporting below.

21. Under AGP, communities are expected to contribute to infrastructure investments in cash or in kind. An appropriate, robust system will be established to measure, record, and report community contributions. The PIM and FM Manuals will describe procedures to account for and report on community contributions. The AGP also features an innovation funding mechanism based on grants that are approved by regional ARDPLACs. A separate and detailed manual with

⁸³ FGE Accounting system, Volume I.

regard to the innovation funding scheme is under preparation by the AGP task force in a manner acceptable to the Bank. The manual should be finalized before effectiveness.

22. The FM Manual has been reviewed by the Bank, and all recommendations emerging from that review have been incorporate.

23. The AGP-CU and implementing entities will retain all accounting documents on a permanent basis in a defined system that allows authorized users easy access. This procedure should be given due attention to avoid the misplacement of documents which has led to the qualification of the Ministry's Audit Reports.

24. **Information system.** For normal government funds, MoARD and BoARDS use an Integrated Budget and Expenditure (IBEX) accounting system that is operational at the federal level and in most regions. Since the AGP follows the Channel II mode of fund flow, it will use the Peachtree accounting software, which is widely used in the country and will simplify the posting of transactions and generation of reports. The software should be installed by a professional with finance staff trained in its application. The software should be used to its maximum potential, which includes features to safeguard the confidentiality, integrity, and availability of data.

25. **Capacity building/training.** Focused and continued FM training is essential for the success of the AGP. The training responsibility for the project will be borne by the government, the AGP-CU, and DPs. The World Bank will train project staff about Bank FM policies and procedures and will involve the project during the different trainings that it conducts both at the federal and regional levels. The AGP-CU will hold the responsibility to continuously train its accounting staff. Areas for which training is required include the FM Manual, Peachtree accounting software, Bank policies and procedures, document filing mechanisms, and preparation of interim financial reports, among others.

26. **Staffing.** MoARD's finance department currently has ten finance staff, two cashiers, and one custodian. The AGP will have Coordination Units at the federal and regional levels. Both the Federal and Regional BoARDS will be staffed with competent FM specialists. The placement of the financial management specialist at the federal level will be a condition of effectiveness for the project whereas the financial management specialists for the regions will be placed immediately after the project becomes effective. MoARD will not disburse fund to the regions if the proper finance officers are not in place and have started their work officially. The Bank's no objection should be sought before selecting FM specialists for the project.

27. Based on lessons from other projects implemented by MoARD, such as RCBP, the Coordination Unit at the federal level requires an additional assistant accountant to visit the regions and other implementing entities regularly to ensure compliance with basic FM arrangements. The assistant accountant will be recruited within three months of project effectiveness.

28. Business Process Reengineering has also been rolled out to regions and woredas. Since the Oromiya BoARD will handle 34 woredas, an assistant accountant will be recruited within three months after effectiveness. This mobile accountant will visit the woredas and assist them

by building their capacity. The Amhara BoARD will handle 22 woredas. The work load will be assessed during project implementation and an additional accountant recruited if necessary. Although the SNNPR BoARD will handle 19 woredas, the bureau has a finance project unit that is capable of assisting the project accountant.

29. All woredas will use their existing accountants to handle the AGP under close supervision and capacity building initiatives of the regional and federal accountants. Zonal finance offices will also extend their help to the woredas when the need arises.

Internal Controls

30. **General issues.** Internal control comprises the whole system of control, financial or otherwise, established by management to: (a) carry out project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the project's assets. Regular government systems and procedures will be followed, including those relating to authorization, recording, and custody controls.

31. All implementing agencies are using those control procedures prescribed by the government. These procedures are adequate to ensure authorization, recording and custody controls. The project's internal controls—including processes for recording and safeguarding of assets, segregation of duties, procedures for periodic accountability, fund flow arrangement, auditing, and so on—will be documented in the FM Manual.

32. At the woreda level, owing to Business Process Reengineering, the finance department is merged with the procurement department under a "Procurement and Disbursement Process" That is responsible for purchasing required items, effecting payments, and preparing bank reconciliations. The Process owner approves the documents that are prepared and is also a check signatory with one of the Process' staff. Although purchases are made twice a year in bulk through open tenders, lack of segregation of duty still poses a risk for internal control. The internal audit processes of the woredas have the responsibility to ensure that funds are used for the intended purpose.

33. **Internal audit (post audit reviews).** The government civil service reform program is building the internal audit capacity in the country. So far, Internal Audit Manuals have been issued and training has been provided to internal auditors. The improvement in internal audit has been recognized in recent diagnostic work, such as the FA and PEFA. The internal audit department of MoARD uses the Internal Audit Manual issued by MoFED. The department is severely understaffed: It has five staff, whereas MoARD—a big ministry with an equally large capital and recurrent budget—has more than 40 projects from different donors. The understaffing problems have prevented projects from being included in the annual audit program. The department's request for 15 additional staff has been approved but the department has re-advertised due to lack of turn out on the first advertisement.

34. The internal audit department of MOARD will include in their work plans activities of the AGP 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 capacity built. It is expected that MOARD will increase the staff complement of internal audit department within one year of the projects effectiveness. Reports of project activities produced by internal audit will be shared senior officials of the ministry for their action

35. Although the internal audit departments of the BoARDS, BoWRs, RRAs, and woredas are weak and are developing their systems, they will incorporate AGP in their work plans and perform internal audits on their respective implementing offices. The role of the woreda internal audit is significant due to the internal control risk posed by lack of segregation of duty.

Fund flow and disbursement arrangements

36. Funds flow into the project and within the project among various institutions is depicted in Figure A7.1. IDA funds will be deposited in to a separate designated account to be opened at the national Bank of Ethiopia (NBE). Funds from other partners operating under MDTF arrangement will be deposited in to a separate foreign currency denominated designated account to be opened at the NBE. Funds from the two separate accounts will be further transferred in to pooled Birr account to be held by MoARD. From the pooled local-currency account, MoARD will transfer funds to separate local-currency accounts to be opened by the four regions. MoARD will sign a MoU with relevant service providers whose input to the project is vital.

37. The regions will transfer funds to BoWRs, RRAs, the livestock and marketing agencies (only for Oromiya and Tigray regions since the agencies are an independent entity), the AGP woredas, and zonal agricultural and development desks where applicable. Each of these implementing entities will open separate local-currency accounts to receive funds from their respective regions. The fund flow to each implementing entity will be made according to its respective annual work plan and budget. Any implementing entity that does not report in a timely manner on how the advance is expended will not receive additional funds until the initial advance is settled. The FM Manual will indicate in detail the fund flow to each tier of implementing entity.

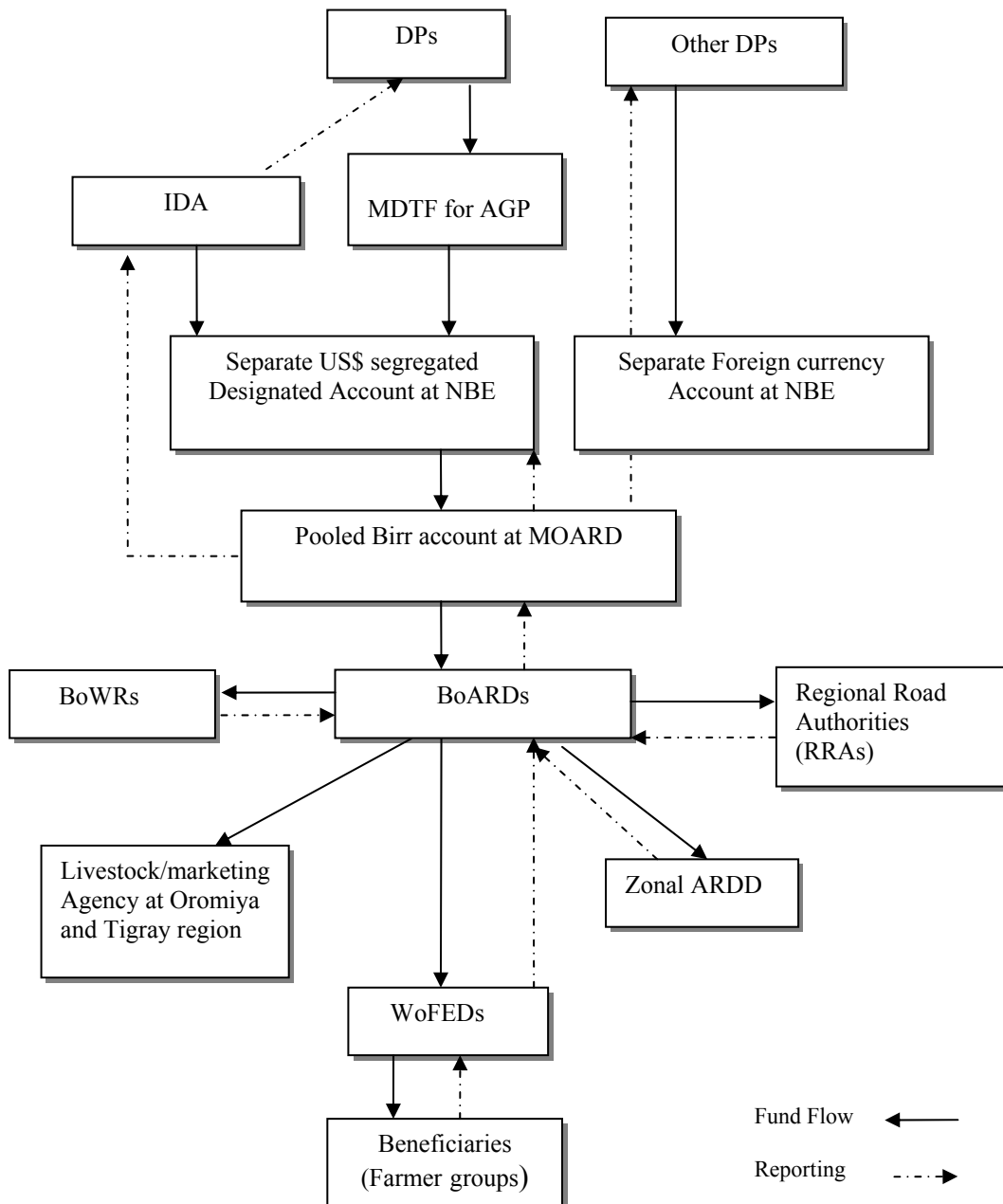
38. Based on the guidelines for the Innovation Fund, farmer groups will receive funds after their grant proposal has been approved and they have met the necessary requirements. The guideline will explain the process of this transaction in detail.

39. **Disbursement method.** The AGP will follow the report-based disbursement method—that is, disbursement will be based on quarterly IFRs. Disbursement will be made quarterly and cover cash requirements for the next six months, based on the forecasts contained in the IFRs; thus IFRs must be produced regularly and on time to ensure smooth disbursement. Provision will also be made for direct payments, special commitments, and replenishments.

40. The disbursement method could change from report-based to transaction-based disbursement (using Statement of Expenditures) if (a) MoARD is not submitting quarterly reports on time; (b) the FM rating of the AGP falls from one implementation support and supervision mission to the next; and (c) the annual Audit Report reveals major internal control issues that could indicate that the IFRs submitted are not dependable.

41. **Designated accounts.** Aside IDA financing, the AGP will have two other forms of financing – pooled and parallel. Donors such as CIDA, RNE, and others will pool their funds in an MDTF, whereas USAID and UNDP will support the AGP through parallel funding. There will be a separate designated account for IDA credit and a foreign currency designated pool account managed by the Bank for MDTF funders. Other interested DPs who may wish to join the AGP will be free to open discrete foreign currency accounts. MoARD will open the Designated Accounts denominated in US dollars in NBE on terms and conditions acceptable to IDA. The limit of the designated accounts will be six months forecasted expenditures. The fund flow diagram (Figure A7.1) shows the fund flow arrangement for the pooled financing and thus does not show the parallel funding from USAID.

Figure A7.1: Fund flow



42. Financing shares of the respective partners to finance the annual work plan and budget will be agreed with definitive proportions. The World Bank Task Team Leader (TTL) will advise the World Bank's loan department of the share of financing to be disbursed by the World Bank for the project by linking it to the project cash flow.

Financial reporting

43. MoARD's finance department prepares the Ministry's financial statement as per the government requirements issued by MoFED. Modified cash basis of accounting is used to prepare the accounts. MoARD is expected to prepare and submit the necessary report to MoFED on a monthly basis. The content of the reports include the trial balance, revenue details, receivable/payable details, transfer details, expenditure details, bank reconciliation with the Bank statement, and monthly transaction detail.

44. Financial reports will be designed to provide high-quality, timely information on project performance to project management, IDA, DPs, and other relevant stakeholders. Peachtree software is capable of producing the required information regarding project resources and expenditures. Duties of each implementing entity in preparing regular financial reports are explained below:

- Based on the regular reports received from the four BoARDS, it is the responsibility of MoARD to prepare consolidated quarterly unaudited IFRs, consolidate annual accounts, and facilitate the external audit of the consolidated accounts.
- BoARDS will each be responsible for submitting regular financial reports to MoARD on a quarterly basis by consolidating the woreda, zone, BoWR, and RRA financial reports.
- Woreda finance offices will be responsible for preparing and submitting quarterly reports to BoARDS.

45. Financial reports are sent from WOFEDs on a quarterly basis to BoARDS and the BoARDS will ensure that the reports received from the lower level are up to standard and complete. As noted, after performing the necessary checking, BoARD will consolidate the reports from WOFEDs, BoWRs, and RRAs and submit quarterly financial reports to MOARD. MOARD will in turn check and consolidate the regions reports together with the reports of other line ministries and then submit quarterly consolidated IFRs to donors within 60 days of the end of the quarter.

46. For monitoring purposes, both MoARD and the BoARDS will send their financial reports to MoFED and BoFEDs, respectively.

47. Formats of IFRs were developed by MoARD, agreed with IDA during project negotiations, and included in the FM Manual. The format of IFRs will be produced from the AGP accounting system (the report should not compile transactions from separate systems, as this procedure could lead to inefficiency and inaccuracy). The IFR will include:

- (a) A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative.

- (b) A statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and sub-components). Actual versus budget comparisons for the quarter and cumulative will also be included.
- (c) A statement of the cash forecast/requirement for six months.
- (d) Notes and explanations.
- (e) A statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances.
- (f) Other supporting schedules and documents.

48. The annual financial statements will adopt the same format as the quarterly reports and may also include other issues. However, the annual financial statements do not need to include a statement of cash forecast/requirement. The audit terms of reference will include the content of the audited project financial statement.

External auditing

49. Annual audited financial statements and the annual Audit Report (including the Management Letter) for the project will be submitted to IDA within six months from the end of the fiscal year.⁸⁴ The annual financial statements will be prepared in accordance with the International Financing Reporting Standards and include the sources and uses of funds for the project (containing the same information as similar statement in the IFRs), with supporting schedules and other information. The formats of the annual financial statements will be included in the FM Manual. The draft annual financial statements will be prepared within three months of the end of the fiscal year and provided to the auditors to enable them to carry out and complete their audit on time.

50. The audit will be carried out by the Office of the Federal Auditor General (OFAG) or a qualified auditor nominated by OFAG and acceptable to IDA.⁸⁵ (OFAG has previously assigned an independent auditor to audit World Bank-financed projects in MoARD.) The auditor will be appointed within two months of effectiveness. To ensure rotation of auditors in line with good practice and considering the five-year life of the project, private auditors will have a maximum term of three years (non-renewable).

51. The auditor will prepare a work plan to ensure adequate coverage of the various institutions that receive project funds and cover all the major risk areas. Given the large number of institutions and to meet the timetable for completing the annual audit, the auditor will evaluate and decide when to undertake and carry out a semi-annual interim audit following the audit plan. The interim audits are not a separate exercise but are intended to facilitate the quick finalization of the annual audit. The auditor will report internal control weaknesses noted during the semi-annual audit for action by MoARD. This procedure is designed to ensure that the annual Audit Report is received within the specified time and to help the implementing entity take the necessary actions on any internal control weaknesses noted. DPs can refer to the interim audit reports during project supervision.

⁸⁴ IDA will share these as well as the results of its review with other development partners.

⁸⁵ According to the Ethiopian Constitution, OFAG is responsible for auditing all financial transactions of the federal government as well as subsidies to the regions.

52. The auditor will express an opinion on the project financial statements. The audit will be carried out in accordance with the International Standards of Auditing issued by the International Federation of Accountants. The scope of the audit will also cover the reliability of the IFRs used as the basis for disbursements and the use of the Designated Account. The auditor will also provide a Management Letter which will, among other things, outline deficiencies or weakness in systems and controls provide recommendations for their improvement, and report on compliance with key financial covenants. The terms of reference for the audit has been be agreed at negotiations and will be included in the FM Manual.

53. MoARD and all project institutions will take the necessary follow-up actions on the Audit Reports. MoARD will submit the government’s response to the findings in the annual Audit Report to IDA and an action plan for any follow-up actions. Audit Reports to be submitted are summarized in Table A7.1.

Table A7.1: Audit Reports and Reporting Schedule for the AGP

Report	Responsible Agency	Due Date
Audited Project Financial Statements and audit opinion thereon for each fiscal year (including Management Letter)	MoARD	By January 7 of each year. The first report will be for the period ended July 7, 2011 and will be due on January 7, 2012.

Institutional oversight

54. As mentioned, AGP will be implemented through existing government structures, with the exception of parallel funding through USAID, which will be channeled through a contracted implementation firm. AGP activities will be coordinated by a high-level steering committee at the federal, regional, and woreda levels for overall oversight and decision making on major issues. Day-to-day management will be handled by the regional and federal AGP coordination units as well as dedicated focal persons at the zonal and woreda levels. The AGP coordination units and focal persons will be supported by technical committees with membership from all implementing institutions and service providers. The ARDPLACs will serve to promote public–private partnerships under the AGP and advise on developing priorities for support under the competitive grants program for technology, agribusiness, and market development. The Executive Committee of the ARDPLAC will be comprised of representatives from MoARD, farming communities, the extension and research services, academia, NGOs, CSOs, and the private sector. The AGP Coordinator will be responsible for establishing an active linkage with the ARDPLACs to ensure advice from multiple stakeholders on AGP implementation.

55. The AGP-CU will also provide technical support to the regions, monitor progress in achieving the development objective, undertake large procurements and service contracts, report on the use of funds, prepare regular IFRs for the World Bank and MoFED, report to the Joint Government-partner AGP-SC on program achievements, impact, and implementation progress (including implementation of the Procurement Plan); and follow up on compliance with safeguards.

Financial management support and capacity building

56. Experience from other projects implemented by MOARD has demonstrated the need for FM support and capacity-building mechanisms to be built into project design. Within the AGP, mechanisms will be established and revised, based on implementation progress, at the federal and/or regional levels to provide support to regions and woredas and to assist project management in FM.

57. MoARD will provide FM support to help the various institutions (including BoARDS, WOFEDs, RRAs, and BoWRs) implement the FM arrangements through the financial management specialist to be recruited at the federal level for AGP. Training will include: (a) initial dissemination and orientation training; (b) hands-on implementation support and troubleshooting on aspects of FM for AGP; (c) periodic training; (d) training on the FM Manual as needed; (e) carrying out any FM-related technical work or studies; (f) preparing progress reports on FM aspects of AGP; and (g) supporting the consolidation of financial reports, preparation of IFRs, and annual financial statements.

E. Financial management risk assessment, strengths, weaknesses, and lessons learned

58. The FM risk assessment and the corresponding mitigation measures are shown in Table A7.2.

Table A7.2: Financial Management Risk Assessment and Mitigating Measures, AGP

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating	Effectiveness Condition (Y/N)?
Inherent Risk				
Country Level Risk arises from weak capacity especially at the Regional and woreda levels. There is high turnover and shortage of qualified accountants and auditors	S	A comprehensive PFM reform program is being addressed by the government's Civil Service Reform Program supported by PSCAP and PBS II. Some of the reforms include OFAG and ORAG capacity building, internal audit capacity building, and IBEX roll-out to woredas.	M	N
Entity Level MOARD and the other players in implementing the project, have low capacity in accounting, financial reporting, and auditing.	S	The PIM for this project stipulates the coordination among the implementing entities. The FM Manual defines the respective FM responsibilities of players in the AGP. MoARD has experience in managing Bank-financed projects, which will be enhanced through continuous training. Once a year, each of the four regions will receive training tailored to their weaknesses.	M	N

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating	Effectiveness Condition (Y/N)?
<p>Project Level</p> <p>The project is complex with the involvement of large number of dispersed entities with a mix of large and small amounts of disbursement. The program involves regions, zones (where relevant), woredas, communities, and other line sectoral bureaus whose capacity is low in accounting and reporting as going down the level.</p>	H	<p>The PIM, which includes the FM Manual, outlines the responsibility of each implementing entity. It also describes how best they can coordinate their efforts.</p> <p>Qualified FM officers will be in place both at the federal and regional levels. Additional assistant accountant will be recruited at the federal level and for Oromiya Region, whereas SNNP Region will support the AGP through its current finance project coordination unit.</p> <p>Training and workshops provided to project accountants and relevant internal auditors will be conducted as agreed in the action plan.</p>	S	N
Inherent risk	H		S	
Control Risk				
<p>Budgeting</p> <p>Wide number of implementing entities may lead to the delay in appropriate budgeting process.</p> <p>Lack of satisfactory variance analysis to monitor budget implementation may also be a risk.</p>	S	<p>The AGP-CU will set up a timetable for budget preparation for all implementing entities at all levels to align the process with the government's budget preparation timetable.</p> <p>MoFED will issue the annual budget calendar circular in time to ensure that all project participants have enough time to produce budgets.</p> <p>Variance analysis will be part of the IFR content. The annual training to be given to the regions, as indicated in the agreed action plan, will incorporate training on budgetary control and preparation of variance analysis.</p>	M	N

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating	Effectiveness Condition (Y/N)?
<p>Accounting</p> <p>High staff turnover.</p> <p>Risk of delay in recording transactions.</p> <p>Accounting of community contribution may be weak.</p> <p>Accounting for Innovation Funds component, which will be channeled to farmer groups, could be new to the implementing entity and cause a risk of mismanagement.</p>	S	<p>Qualified accountants will be placed both at the federal and regional level.</p> <p>Accountants in implementing entities will be trained in the FM Manual and Bank procedures so that they can replace vacant positions in implementing AGP.</p> <p>International Financial Reporting Standards will be used in the AGP.</p> <p>Detail accounting policies, including accounting for community contributions, will be outlined in the FM Manual.</p> <p>New staff will be trained in the manual and also in Bank procedures within one month.</p> <p>Innovation Fund scheme has its own detailed manual, and training will be given on the subject by experts. The manual spells out rules and guidelines, including specific criteria for selecting farmer groups, information on what will be expected from them and the amount of funding provided per category of beneficiary, among other information.</p>	M	<p>Y</p> <p>N</p> <p>Y</p>
<p>Internal control</p> <p>Internal audit function is weak due to understaffing.</p> <p>No subsidiary records are maintained for fixed assets, leading to mishandling of funds.</p> <p>The functions of procurement, payment, and preparation of Bank reconciliation are performed by one Process at the woreda level.</p>	S	<p>The capacity-building component under PBS II (sub program C1) is expected to enhance the effectiveness of the current regional/federal internal audit departments. MoARD's internal audit department has been asked to send one of their staff for Certified Internal Auditors training.</p> <p>Inclusion of AGP in the annual work plan of the MoARD Internal Audit Unit: Three months after effectiveness.</p> <p>Internal auditors of regional BoARDs, RRAs, and woredas will include the AGP in their annual plan and audit.</p> <p>MoARD, regions, and woredas will keep records of fixed assets as depicted in the FM Manual.</p>	M	N

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating	Effectiveness Condition (Y/N)?
Funds flow There may be delays in flow of funds to the lowest implementation levels.	S	Funds will be released to the next implementing entity based on their annual work plan and budget, which will be prepared in detail and communicated to all entities. Receiving entities will be asked to report to MoARD when they receive funds, which will be summarized every six months to determine delays. Based on the outcomes, a discussion will be held with MoARD to establish service standards for fund flow for this project. Training will be given on IFR preparation to avoid delay in fund flow. Close supervision by DPs.	M	N
Financial reporting Delays in financial reporting due to the need for consolidation across large number of entities.	H	Regular training on the preparation on IFRs will be conducted by MOARD. Close follow-up of MOARD and the DPs. Each woreda and line bureau will prepare and report to its respective region within 10 days of the end of each quarter. Each region will consolidate the reports received with its own and report the same to MoARD within 30 days of the end of the quarter. MoARD will consolidate the final reports received from the 4 regions and submit the same to the Bank within 60 days of the end of the quarter. The report timing of each implementing entity is described in the FM Manual. The content of the IFR has been agreed during negotiation.	S	N
Auditing Because of the involvement of a number of implementing entities all over the country, delays in preparation of financial accounts for consolidation necessary for submission of external audit reports could be encountered.	H	External auditors will be recruited within 2 months of effectiveness. Interim audit will be conducted by the external auditors every six months, which will feed in to the annual audit report. Audit terms of reference agreed upon during negotiations. Preparation of financial statements will be done in the first three months of the close of the FY to ensure an early start of audit of the financial statements.	S	N
Control Risk	S		M	
Total Project FM Risk	H		S	

Note: H=High; S=Substantial; M=Moderate; L=Low.

59. In view of the information in table A7.2, the inherent risk of the project is **substantial**, while the control risk is **moderate**. The overall financial management risk rating of the project after risk mitigating measures is **substantial**.

Strengths and weaknesses

60. The AGP will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the government's Expenditure Management and Control sub-program. The government's existing arrangements are already being used in a number of projects, including PSNP APL III and PBS, which are under implementation. AGP also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties, and it benefits from the effort being made to improve the internal audit function. Another strength for the AGP is MoARD's extensive experience in handling Bank-financed projects. The availability of steering committees both at the federal and regional levels is an advantage to the project in enhancing its internal control.

61. The main weaknesses in FM arrangements continue to be high turnover and a shortage of qualified accountants and auditors (mainly at the woreda level), delays in reporting, the limited focus of internal audit, and the largely ineffective internal audit function. The long process involved in producing reports (from the woredas to the regions, and from the regions to MoARD) may delay timely submission of financial reports to the DPs.

Lessons learned and actions taken

62. The major weaknesses consistently noticed across projects implemented by MoARD are the high staff turnover caused by the low pay scale and delayed submission of quarterly financial reports and yearly audit reports. To address these challenges, the following elements have been incorporated to the AGP:

- Government finance employees will be included in training on Bank operations and project-specific training to become qualified for filling in when project staff are unavailable.
- Experienced accountants will be recruited both at the federal and regional level. These accountants will be responsible for preparing the quarterly financial reports and will receive intensive trainings on preparation of IFRs.
- To ensure that audit reports are submitted on time, a semi-annual interim audit will be conducted by external auditors. The interim audits will feed in to the annual Audit Reports.

F. Action plan and covenants

Action plan

63. The FM action plan, presented in Table A7.3, was confirmed at negotiations.

Table A7.3: Financial Management Action Plan

	Action	Date due by	Responsible
1	Preparation of the FM Manual in terms of budgeting, accounting, fund flows, internal controls, financial reporting, and auditing issues; manual will also include new developments like the procedures pertaining to the Innovation Fund, community contributions, Chart of Accounts, and other relevant aspects.	Completed before negotiations.	MoARD
2	Training will be provided in the FM Manual, with particular emphasis on budget preparation and variance analysis, and covering all relevant issues on accounting, reporting, and fund flow arrangements.	Initial training to be given 1 month after project effectiveness.	MoARD
3	Recruitment of external auditors at early stages of the project.	Within 2 months of effectiveness.	OFAG / MoARD
4	Ongoing training will be conducted. Budget analysis training, IFR preparation training, and other themes to be covered.	Annual training for implementing entities by region. During such time, review of each region's FM performance will be discussed and tailored training will be given to each region.	MoARD
5	MoARD and BoARD should conduct regular field visit to support as well as monitor the performance of WOFEDs.	Ongoing.	MoARD
6	Increased engagement of internal audits at all levels to identify control weaknesses early. In this respect, workshops or capacity building activities/training will be conducted for auditors at federal, regional, and woreda level.	Ongoing.	MoFED/ MoARD
7	Recruitment/placement of qualified financial management officer at Federal AGP - CU and the four BoARDs.	Before effectiveness.	MoARD
8	Recruitment/placement of qualified financial management officers at four BoARDs (regional AGP – CU).	Immediately after effectiveness. Fund will not flow to the regions unless the officers are hired/placed.	BoARDs
9	Recruit/place assistant accountant for MoARD and Oromiya Region BoARD	3 months after effectiveness.	MoARD/ BoARD
10	MoARD and BoARDs should undertake adequate robust reviews and checks on the reports submitted to them from regions and woredas, respectively. MoARD should take action on woredas that delay reports.	Ongoing.	MoARD

Financial management covenants and other agreements

64. FM-related conditions of effectiveness are: (a) preparation and adoption of a satisfactory FM Manual (part of the PIM) and (b) appointment of key FM-related staff (one FM specialist at MoARD and 4 accountants for the four regions of AGP).

65. FM-related covenants in the Financing Agreement would include: (a) maintenance of a satisfactory FM system for the AGP; (b) submission of IFRs for the AGP for each fiscal quarter within 60 days of the end of the quarter; (c) submission of annual audited financial statements and Audit Report within six months of the end of each fiscal year; (d) communicating internal control weaknesses noted during the mid-year audit within 90 days of the semi-annual period just ended; and (e) MoARD, in consultation with OFAG, to appoint project auditors for AGP two months after effectiveness.

G. Supervision plan

66. The FM risk for the AGP is rated **substantial**. Consequently for the first two years the AGP will be supervised every three months per year to ensure that FM arrangements are in place and are functioning properly. Afterwards the AGP will be supervised twice per year. After each supervision, risk will be measured and recalibrated accordingly. Supervision will be carried out in coordination with other DPs and will include:

- On-site visits to the various project institutions at all levels, including MoARD, BoARDs, and a sample of WOFEDs, zones, and other implementing entities. These visits would include a review of controls and the overall operation of the FM system; review of internal audit, selected transaction reviews, and sample verification of existence and ownership of assets.
- Reviews of IFRs and follow-up on actions needed.
- Review of Audit Reports and Management Letters, and follow-up on actions needed.

H. Governance and anti-corruption and control of soft expenditures

Governance and anti-corruption

67. MoARD has an Anti-corruption Officer who has the responsibility of acting on suspected incidents of fraud, waste, or misuse of project resources or property. Employees of the ministry are advised to raise any governance and anti-corruption concerns with this officer. Table A7.4 presents the GAC risks identified and corresponding mitigating measures in the design of the project. The perceived risks as identified below will assist the DP team working on the AGP in determining the supervision resources and frequency of such supervision. The overall GAP risks after mitigating measures are considered to be moderate.

Table A7.4: Governance and Anti-corruption Risks and Mitigation Measures Incorporated into the AGP

FM Risk Area	Identified GAC Risks	Mitigating Measures in the Project Design
Fund flow	<p>Financial reports that are not prepared on time, in agreement with underlying records and supporting evidence, may be fraudulent. This risk will be more common at the lower level.</p> <p>Lack of timely and accurate reporting allows misuse of funds to remain undetected.</p>	<p>Fund flow is designed by attaching the coordination unit to the sector ministry and bureaus, which have strong internal control mechanisms. Lower level staff will be adequately trained and given the requisite support to prepare reports timely.</p> <p>All transactions between implementing entities will be made through Acceptable Banks.</p>

FM Risk Area	Identified GAC Risks	Mitigating Measures in the Project Design
Internal controls	<p>Client staffing is inadequate to ensure effective fiduciary oversight of complex project transactions.</p> <p>Lack of effective internal audit department both at ministry and regional levels.</p> <p>Failure to regularly monitor the existence and quality of assets presents a risk of fraudulent delivery, misuse, and theft.</p> <p>Lack of segregation of duty at the Woreda level.</p> <p>Lack of control over soft expenditures such as stationary, fuel, and training materials.</p>	<p>Appointment of qualified finance staff members to carry out and supervise key control functions at federal and regional levels is agreed for AGP.</p> <p>The internal audit functions of MoARD and regions are being strengthened by projects such as PBS II. Despite the capacity limitations, the internal audit departments will review the projects as per their annual program. The internal audit units of woredas will also audit the program. Internal auditor will be recruited at the federal level to strengthen the internal control.</p> <p>Physical inventory of fixed assets will be taken annually.</p> <p>The FM Manual will include detailed internal control procedures with regard to soft expenditures, starting from the initiation of transactions to the approval of the expenditures, and also on safeguard of assets, including annual physical inspection.</p> <p>Internal audit at woreda level will be highly engaged in reviewing transactions.</p> <p>The scope of external audit is extended to cover identified risks in the areas of funds transferred to communities and to line ministries. The audit will be done annually with geographical coverage of all regions and a sample of woredas and line ministries. Substantive testing, verification of existence, and end use will also be included in the audit terms of reference.</p>
Financial reporting	<p>Financial reports that are not prepared on time, in agreement with underlying records and supporting evidence, may be fraudulent. This risk will be more evitable at the lower level.</p> <p>Lack of timely and accurate reporting allows misuse of funds to remain undetected.</p>	<p>The financial reporting function will be strengthened by the additional qualified accountants. The Chart of Accounts for the project will be prepared to facilitate the reporting procedure. The FM Manual for the project will define the timetable of reporting for each implementing entity.</p> <p>The accounting software (Peachtree accounting software) to be used for the project is capable of producing financial reports directly from the system without any tampering.</p> <p>The external audit work is sufficient to verify consistency with underlying transactions and records. The auditors will verify that expenditures reported on an IFR basis are eligible or not.</p> <p>Format of quarterly reports were prepared and agreed upon at negotiations. The format will be simple and understandable by all stakeholders.</p>
External audit	<p>External auditors fail to identify material risks or report control failures.</p>	<p>The external auditors assigned for the project, if apart from OFAG, must be acceptable to the Bank.</p>

FM Risk Area	Identified GAC Risks	Mitigating Measures in the Project Design
	<p>Scope of the financial audit is insufficient to address identified high-risk areas.</p> <p>Failure to address audit findings in a timely manner represents a significant deficiency in accountability and control.</p>	<p>A special-purpose audit and assurance engagement to verify that Innovation Fund has reached beneficiaries is reflected in the audit terms of reference.</p> <p>The terms of reference of the FM specialist to be recruited at MoARD will indicate that he/she is responsible for addressing audit findings in a timely manner. DPs will also follow up on action plans and rectifications made.</p>

Control of soft expenditures

68. A number of measures to strengthen the controls related to soft expenditures (e.g. per diems, travel, accommodation, fuel, training, workshop and seminar costs) will be described in the FM Manual. Proper budgeting, authorization, control, monitoring and accounting of these expenditures are the responsibility of the Project Director. The Finance Section will have special oversight responsibilities. The project financial officers will be responsible for ensuring that the management controls specified in the FM Manual are enforced. These controls included:

- Procedures for Budgeting and Acquitting of Expenditures for Workshops. This will include, for example, controls on attendance, controls against budgeted expenditures, and the Finance Section undertaking verification (including where appropriate spot checks).
- Procedures for control of fuel
- Maintenance of Advance Records

Annex 8: Procurement Arrangements
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

A. Procurement environment

1. A new public procurement law "The Federal Government of Ethiopia Proclamation and Property Administration Proclamation" No. 649/2009 was enacted by Parliament on July 7, 2009, repealing the old public procurement Proclamation No. 430/2005, "*Determining Procedures of Public Procurement and Establishing its Supervisory Agency Proclamation of the Federal Democratic Republic Government of Ethiopia*", dated January 12, 2005. The enabling Directives and revised national Standard Bidding Documents based on the new proclamation have not yet been shared with the Bank. Thus a detailed analysis of the impact of the new legislation on the national competitive procurement procedures and the procurement activities under the Project has not been possible. The new Procurement Law of the Federal Democratic Republic of Ethiopia which came into effect upon its publication in the *Negarit Gazeta* on September, 9, 2009 provides for the establishment of bodies including the Public Procurement and Property Administration Agency (PPA), the Government Procurement Agency and the Board Reviewing Complaints on Public Procurement and Property Administration. The Procurement and Property Administration Proclamation also provides for the issuance of Directives, Procurement and Property Administration Manuals, Standard Bidding Documents, and forms for the realization of the objectives and the implementation of the proclamation.

2. The proclamation has entrusted the PPA with the responsibility of preparing, updating and issuing authorized versions of the Standard Bidding Documents (SBDs), procedural forms, and any other attendant documents pertaining to procurement and property administration. To date, updated National SBDs for procurement of goods, works, and services commensurate with the new proclamation have not been issued. Until such new National SBDs are issued, the procurement is conducted using the National SBDs issued in January 2006 under the old proclamation. The World Bank has reviewed the national bidding documents for procurement of goods and works and has found them to be generally acceptable. The Bank is now supporting the revision of these documents to reflect the new procurement law.

3. At the regional and woreda levels, public procurement is governed by proclamations enacted by the respective regional governments derived from the federal model law. Currently, all nine regions and the city administration of Addis Ababa have public procurement proclamations derived from the old procurement law, while Dire Dawa city administration applies the federal proclamation and directives. However, the proclamations ratified by regions have not provided for establishing independent procurement agencies (regional PPAs). Following the issuance of the new Federal Procurement Law, templates of the proclamation as well as the draft procurement directive are sent to the regions so that they may develop their own procurement proclamations and procurement directives. Some regions have already established task forces and have started the review of their proclamations and procurement directives.

4. The "Ethiopia 2002 Country Procurement Assessment Report" (CPAR) identified weaknesses in the country's procurement system and recommended actions to address these

areas. The government has implemented many of the CPAR recommendations, but challenges remain in the areas of: coordination of procurement reforms, shortage of qualified procurement staff, institutional structures for procurement management, weak institutional capacity, appeals mechanism for addressing stakeholder complaints, systematic procurement monitoring and evaluation of performance, and capacity building. The new federal procurement law addresses some of these shortcomings, but the World Bank will review the new procurement legislation when the new directives and revised SBDs are available.

B. Procurement under the AGP

5. Procurement under the AGP to be financed with funds pooled with IDA and procurement using funds from the MDTF administered by the Bank would be carried out in accordance with the World Bank's "[*Guidelines: Procurement Under IBRD Loans and IDA Credits*](#)" (May 2004, revised October 2006 and May 2010), "[*Guidelines: Selection and Employment of Consultants by World Bank Borrowers*](#)" (May 2004, revised October 2006 and May 2010), and the provisions stipulated in the Legal Agreement.

6. Given the revised National SBDs based on the new procurement proclamation have not been issued, and given the Bank's review of the Federal Government's competitive bidding procedures based on the old procurement proclamation, contracts that will be procured under National Competitive Bidding (NCB) may follow the Borrower's procurement procedures based on the old proclamation, subject to the following additional procedures: (a) the Recipient's standard bid documents for procurement of goods and works dated January 2006 shall be used; (b) if pre-qualification is used, the World Bank's standard prequalification document shall be used; (c) margin of preference shall not be applicable; (d) bidders shall be given a minimum of 30 days to submit bids from the date of availability of the bidding documents; (e) use of merit points for evaluation of bids shall not be allowed; (vi) foreign bidders shall not be excluded from participation; (f) the results of evaluation and award of contract shall be made public; and (g) in accordance with para.1.14(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 shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have said accounts and records audited by auditors appointed by the association; and (ii) the deliberate and material violation by the bidder, supplier, contractor, or subcontractor of such provision may amount to an obstructive practice as defined in paragraph 1.14(a)(v) of the Procurement Guidelines.

7. Most of the procurement activities under AGP including the supervision and contract administration as well as the rehabilitation and construction of small-scale irrigation schemes, rural roads, market centers, and other developmental works will be planned and executed at the regional and woreda level. Procurements at the regional level would generally involve contracts procured through NCB and Shopping procedures, whereas purchases at the woreda level would be through Shopping procedures and community purchases. The procurement under NCB at the regional levels would be carried out using National SBDs and in accordance with competitive regional procurement procedures that have been reviewed and found acceptable to the World Bank.

8. The above-mentioned modifications are based on the procurement procedures under the old federal procurement proclamation and do not take account of the new procurement law that was approved by Parliament on July 7, 2009. The World Bank shall review the procurement law when the directives and the SBDs are made available to it. For procurement under AGP, the Recipient shall continue to follow the existing National SBDs with the above modifications. When the World Bank has issued new modifications, if any, to apply to the new procurement regime under Proclamation 649/2009, the new modifications will be incorporated into the AGP PIM and become applicable to procurement under the AGP after the Bank's approval and GoE's adoption of the AGP PIM.

9. Under AGP, the Recipient is obliged to continue to follow the NCB modifications to its procurement procedures as stated above, notwithstanding the adoption of the new procurement proclamation. The World Bank will review the new procurement proclamation together with the new directives and revised SBDs in order to determine the modifications needed for Ethiopia's revised NCB procedures to be acceptable for use in World Bank-financed contracts. The AGP PIM is being prepared to capture the World Bank's comments.

10. The various items under different expenditure categories are described in general below. For each contract to be financed in part or in full by IDA, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

11. **Procurement of works.** Works procured under this project would include: the construction of small-scale irrigation facilities; rehabilitation of communal land; treatment of gullies; farmland and homestead development; community-based roadside floodwater harvesting; other soil and water conservation measures including spring development, construction of rural feeder roads; market infrastructure; and community nurseries (fruit, vegetable, coffee, tree seedlings). Works under the project would also include small-scale, labor-intensive civil works based on the standardized designs of the Community Based Watershed Management Guidelines, with direct participation by the beneficiary communities. The procurement will be done using the Bank's SBDs for all ICB contracts and National SBD agreed with or satisfactory to the Bank for NCB contracts.

12. **Procurement of goods.** Goods and equipment to be procured under the AGP include: office furniture and office equipment, vehicles, motorbikes, bicycles, computer hardware and software, irrigation pumps, and other water-related equipment. At the woreda level, small items like farm tools and furniture shall be procured. A list of the items together with a cost estimate and a procurement plan will be completed at appraisal. Goods will be packaged whenever possible in packages valued higher than US\$ 500,000 equivalent and tendered under ICB procedures described under Section 2 of the Procurement Guidelines. As noted, the Bank's SBDs would be used for all ICB contracts. Contracts for goods procurement under the monetary value of US\$ 500,000 equivalent may be tendered through NCB. Goods procurement contracts below the monetary threshold of US\$ 50,000 equivalent may be procured through the Shopping

procedure in accordance with paragraph 3.5 of the Procurement Guidelines. Procurement of goods other than through ICB would use the national procedures and SBDs as agreed with and deemed satisfactory to the World Bank. Direct contracting will be used where it is to the benefit of the project and in accordance with the provisions of paragraph 3.6 of the Bank's Procurement Guidelines. Procurement by farmer groups and communities implementing the demand-driven activities of the Project may be conducted through community participation in procurement in accordance with paragraph 3.17 of the Procurement Guidelines. The detailed procedures and project components to be carried out by community participation shall be elaborated in the AGP PIM.

13. **Procurement of non-consulting services:** Depending on the nature of the services, procurement of non-consulting services, such as transport, will follow procurement procedures similar to those stipulated for the procurement of goods. NCB procedures acceptable to the Bank may be used for contracts valued at an estimated monetary amount of less than US\$ 500,000 equivalent. Contracts valued at less than US\$ 50,000 equivalent may be procured using Shopping procedures in accordance with the provisions of paragraph 3.5 of the Bank's Procurement Guidelines or in accordance with established commercial practices of common use in Ethiopia acceptable to the Bank.

14. **Selection of consultants.** The project will make use of consultant services for training, technical assistance, and other capacity-building activities, farmer survey, M&E studies, studies to integrate land use system, financial management agency services, and annual financial audits of project activities. Contracts above US\$ 200,000 will be awarded through the use of the Quality and Cost-Based Selection method described under Sections 2 of the Consultant Guidelines. Consulting Services for audit and other contracts of a standard or routine nature may be procured under the Least Cost Selection method (LCS) described under Section 3.6 of the Consultants Guidelines. Consulting assignments costing less than US\$ 100,000 may be procured through the Selection Based on Qualifications (CQS) method: Shortlists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Single Source Selection may be used where it is to the benefit of the project in accordance with the provisions of paragraphs 3.9 or 5.4 of the Bank's Consultant Guidelines. When consultants are recruited by private sector enterprises or autonomous commercial enterprises in the public sector financed in part or in full by IDA under the Project the beneficiary may follow well-established private sector or commercial practices that have been determined by the Bank to be acceptable to it in accordance with paragraph 3.14 of the Consultant Guidelines.

15. **Operating costs.** Expenditures made for operational costs such as fuel and stationery, cost of operation and maintenance of equipment, communication charges, transportation costs, and travel allowances to carry out field supervision will follow Ethiopian Government practices that have been found acceptable to the Bank and included in the PIM.

16. **Training and workshops.** Training and workshops will be based on capacity-building needs. Venues for workshops and training as well as purchases of materials for training and workshops will be done on the basis of at least three quotations. The selection of institutions for

specialized training will be done using the quality Based Selection method. Annual training plans and budget shall be prepared and approved by the World Bank in advance of the training and workshops.

17. **Margin of preference for domestic goods.** 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.

18. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the AGP PIM.

C. Assessment of the agency's capacity to implement procurement

19. Procurement activities of the AGP shall be carried out in a decentralized manner in four major national regional states of Ethiopia. At the central level, MoARD is the focal organization for implementation of the AGP. The four national regional states which are the beneficiaries of the AGP include Amhara, Oromiya, SNNP, and Tigray National Regional States. The BoARDS and the Zonal and Woreda Agricultural and Rural Development Offices shall serve as the implementing organizations of AGP in the respective regions. The implementation of the AGP extends down to the kebele (community) level in the regional administrative structure.

20. In MoARD, the AGP-CU shall serve as the focal organ for the implementation of the AGP. However, the procurement aspect of the AGP shall be handled by the Procurement and Property Administration Directorate of MoARD. In the regions, procurement is handled by Procurement and Property Administration Process of the BoARDS of the respective regions. In zones and woredas, procurement is handled through a pooled procurement system in the Zonal and Woreda Bureaus of Finance and Economic Development Offices, respectively.

21. An assessment of the capacity of the Implementing Agency to implement procurement actions for the AGP has been carried out by a procurement specialist in the Country Office from October 2009 to February 2010. The assessment reviewed the organizational structure for implementing the AGP and the interaction between the AGP staff responsible for procurement in the MoARD and the relevant BoARDS in the beneficiary regions. The assessment also looked into the legal aspects and procurement practices; procurement cycle management; organization and functions; record keeping; staffing; and the procurement environment.

22. The assessment has revealed that although efforts are being made to institutionalize procurement in the MoARD and BoARDS of the beneficiary regions, there are still key issues and risks which need to be addressed concerning procurement for implementation of the AGP. The key issues and risks concerning procurement for implementation of the AGP have been identified and include lack of procurement-proficient personnel at all levels in the procurement cycle, management, and record keeping; inadequate staffing of the procurement units at all levels; lack of skill development schemes for procurement personnel in MoARD and BoARDS; the pay scale for procurement personnel, which is too low to attract qualified procurement personnel; and the inadequacy of the procurement environment for implementation of projects.

23. A summary of the risks to procurement under AGP, as well as the proposed procurement capacity-enhancement measures to mitigate the risks, is presented in Table A8.1. The table also includes an assessment of the procurement environment of the country and capacities of the MoARD and BoARDS which has formed the basis for the action plans that have been agreed between the government and the Bank as measures to mitigate the procurement risk under AGP.

24. **Institutional Setup for Procurement:** At central level the procurement and distribution case team which falls under the Procurement, Finance and Property Administration within the MoARD, is the unit which is responsible for the execution of procurement activities of projects financed by donors, including the World Bank, as well as procurement activities carried out by the MoARD through funds obtained from Government treasury. Donor-financed projects could have procurement personnel who are placed in the project coordination unit. However, the procurement process of even such projects is handled by the procurement unit of the MoARD. The procurement case team of the Ministry has some experience in handling donor supported projects including World Bank financed projects. However, capacity limitations which are exacerbated as a result of staff turnover are undermining the smooth implementation of projects. Procurement of AGP at central level shall be carried out in a similar arrangement. However, under AGP because of the understanding that all procurement activities are processed for projects at the procurement case team it is recommended that the procurement officer to be employed for AGP should be placed under the procurement case team being directly answerable to the Head of the Procurement Case Team of the MoARD.

25. At the regional level, procurement is carried out by the procurement case teams of sectoral bureaus. AGP procurement at the regional level shall be carried out by the procurement case teams of the BoARDS of the respective beneficiary regions. On the other hand, procurement under AGP at the woreda level shall be carried out through a pooled system by the Finance and Procurement case teams of the respective WOFEDs. At the regional and woreda level, procurement capacity is limited and the procurement units are characterized by a shortage and absence of qualified procurement staff. In view of this limitation, it is recommended that procurement-proficient staff be employed in each AGP region to carry out procurement activities under AGP and provide the necessary support to the woredas.

26. **Procurement process flow arrangement.** The procurement process arrangement at MoARD is depicted in Figure A8.1.

Procurement Steps Followed at Federal Level (MoARD)

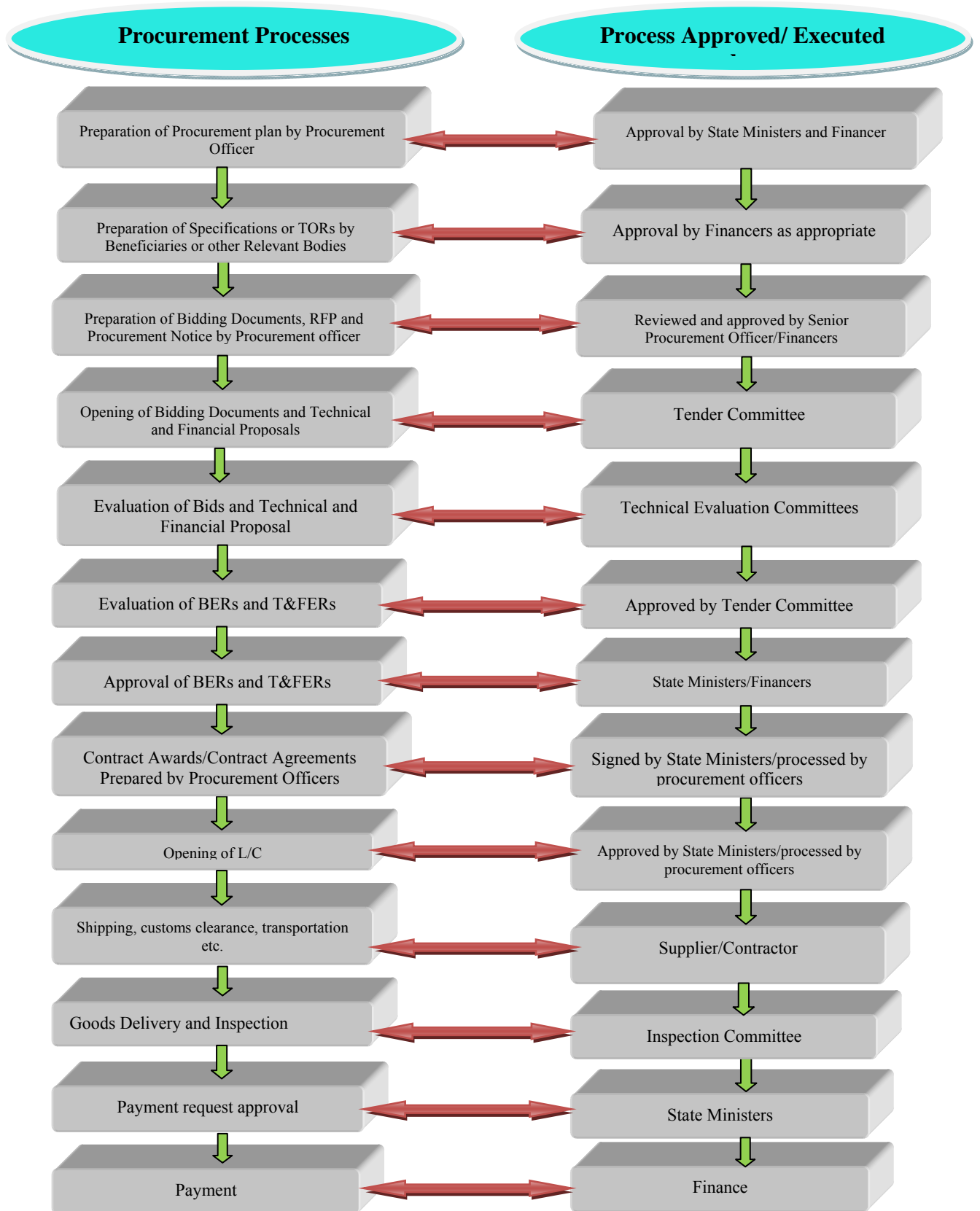


Table A8.1: Summary of Findings and Actions (Risk Mitigation Matrix)

No.	Major findings/issues	Actions proposed	Responsibility	Targeted date
1.	Weak capacity of procurement oversight at regional level	1. Conduct annual independent procurement audit using procurement consultants acceptable to the Association.	Federal CU /	Annually before the end of each FY
2.	Lack of procurement-proficient staff and high procurement staff turnover at MoARD / BoARDS and BoFEDs	<p>1. Employment/assignment of qualified procurement staff acceptable to IDA in the procurement and property administration directorate of MoARD as well as the respective BoARDS in Amhara, Oromiya, SNNP, and Tigray Regions.</p> <p>2. The procurement staff and the tender committee members should undertake basic procurement training.</p> <p>3. Recruit adequate number of university graduates as procurement officers in implementing agencies and regions and provide them basic procurement training.</p> <p>4. Provide procurement staff with the necessary facilities to create conducive working environment.</p>	CU / BoARDS / BoFEDs	<p>Initial stage of implementation</p> <p>Initial stage of implementation</p>
3.	Inadequate procurement planning	<p>1. Make procurement planning a requirement as part of work plans and budget.</p> <p>2. Each procurement entity shall prepare satisfactory annual Procurement Plan.</p> <p>3. Train procurement staff to train other staff in procurement planning.</p>	CU / BoARDS / BoFEDs	Initial stage of implementation.
4.	Inadequate dissemination of National SBDs for the preparation of bidding documents	1. Disseminate SBDs and good templates for standard common use in Shopping procedures.	CU / BoARDS / BoFEDs	Initial stage of implementation.
5.	Lack of written procedural manuals/systems in place including code of ethics	1. Prepare a Procurement Manual to lay out the procurement procedures of AGP.	CU	Done

No.	Major findings/issues	Actions proposed	Responsibility	Targeted date
6.	Lack of capacity for satisfactory data management and maintenance of procurement audit trail	1. Training on procurement record-keeping to be provided to all regions and woredas. 2. Establish satisfactory procurement data management system.	CU / BoARDS / WOARDS / WOFEDs	During launch
7.	Delays in procurement, processes and weaknesses of reporting at woreda level	1. Provide training to woreda-level staff. 2. Regular regional follow-up and training of Woreda-level procurement staff.	Each region	Continuously during implementation
8.	The regional BoARDS have limited capacity and facilities to monitor and support the woredas	1. Provide Regional procurement staff with the necessary facilities to create conducive working environment including mobility to enable them support and supervise implementing agencies at Woreda level. 2. The Regional BoARDS/BoFEDs will be capacitated with manpower and training.	BoARDS	Continuously during implementation

27. The overall risk for procurement under AGP is rated **high**, and the thresholds for prior review for international competitive bidding (ICB), including the maximum contract value for which the shortlist may comprise exclusively Ethiopian firms in the selection of consultants, are presented in Table A8.2 for purposes of the initial Procurement Plan. The procurement capacity of the AGP implementing agencies would be reviewed annually and the thresholds revised according to the improvements or deterioration in procurement capacity.

Table A8.2: Thresholds

Category	Prior Review Threshold (US\$)	ICB Threshold (US\$)	National Shortlist Maximum Value (US\$)
Works	≥5,000,000	≥5,000,000	NA
Goods	≥500,000	≥500,000	NA
Consultants (Firms)	≥200,000	NA	<200,000
Consultants (Individuals)	≥100,000	NA	NA

28. It was further discussed and agreed that the first two (2) contracts of each procurement method, irrespective of their amount, will be subject to IDA prior review in accordance with paragraphs 2 and 3 of Annex 1 of the World Bank’s Procurement Guidelines as part of risk mitigation measures. All ICB contracts shall be subject to IDA prior review. All single-source selection and all direct contracts, irrespective of the amount, will be subject to IDA prior review.

D. Procurement Plan

29. The Borrower, at appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team and is provided in Section F of this Annex. It will also be available in the project’s database and in the Bank’s external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

30. The AGP, apart from institution building, involves the construction and rehabilitation of small-scale irrigation schemes, water and soil conservation measures, construction of rural feeder roads, and the construction and rehabilitation of market centers. In terms of procurement, these activities involve consultancy services for the design and supervision of the construction and rehabilitation of small-scale irrigation schemes, rural feeder roads, and market centers. They also involve the physical construction and rehabilitation of such facilities, which fall under works contracts.

31. Because the AGP is designed to be participatory, the particular small-scale irrigation schemes, rural roads, and market centers to be rehabilitated or constructed will be identified in consultation with the beneficiary communities during project implementation. Hence the

procurement plan at this stage only includes some contracts which are readily identified to be procured at the federal CU and at the regional level.

E. Frequency of procurement supervision

32. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended two supervision missions per year to visit the field to carry out procurement supervision. Specified dated covenants will include:

- The recruitment of procurement coordinator in the MoARD and procurement specialists in the regional BoARDS;
- The staffing of the procurement units of the MoARD and BoARDS at least with university-level graduates commensurate with the level of donor-supported projects which are handled by the respective bureaus; and
- Annual independent procurement audits by procurement consultants selected through procedures satisfactory to the Association.

F. Details of the procurement arrangements involving international competition

1. Goods, works, and non-consulting services

(a) List of Goods Contract Packages to be procured during the initial 18 months of implementation (Table A8.3):

Table A8.3: Goods Contract Packages to be Procured in the First 18 Months of Implementation

Ref. No	Contract Description	Estimated Amount (US\$ 000s)	Procurement Method	Prior or Post Review	Bid Closing-Opening	Date Contract Signing
1	8 4WD SWs & 117 Double Cabin P/Up 4WD Diesel Vehicles	3,235	ICB	Prior	12/30/10	03/30/11
2	2 Tractors with Trailers & Accessories	180	NCB	Post	12/30/10	03/30/11
3	Air-conditioned Truck	100	NCB	Post	12/30/10	03/30/11
4.	Motorcycles	1,740	ICB	Prior	12/30/10	03/30/11
5	Office equipment	1,026	ICB	Prior	02/15/11	05/16/11
6	AI Station, Animal & Plant Health Center Lab Equipment	1,140	ICB	Prior	03/15/11	06/15/11
7	150 Jersey Heifers & 20 HF Jersey Bulls	800	ICB	Prior	01/05/11	12/11/10 03/14/11
8	Poultry Parent Stock	100	ICB	Prior	01/05/11	03/14/11
9	Field Equipment for Water Development & Management (GPS, Altimeter, etc.)	130	NCB	Post	01/17/10	02/22/11

Ref. No	Contract Description	Estimated Amount (US\$ 000s)	Procurement Method	Prior or Post Review	Bid Closing-Opening	Date Contract Signing
10	Equipment for Woreda Veterinary Clinics	830	ICB	Prior	12/27/10	03/15/11
11	Equipment for Animal Health Posts	775	ICB	Prior	12/27/10	03/15/11
12	Equipment for Plant Health Clinics	84	NCB	Post	12/27/10	03/15/11
13	Liquid Nitrogen Spare Parts for Kaliti AI Station	50	DC	Prior	12/10/10	02/10/11
14	Local Cows (200)	60	CP	Post	03/14/11	04/14/11
15	Local Breeding Ewes	60	CP	Post	03/14/11	04/14/11
16	Semen (5,000 straw)	50	Shopping	Post	12/15/10	01/31/11
17	Exotic Rams (40)	32	DC	Prior	12/10/10	02/10/11

(b) Works Contract Package to be procured during the initial 18 months of implementation (Table A8.4):

Table A8.4: Works Contract Package to be Procured in the First 18 Months of Implementation

Ref. No	Contract Description	Estimated Amount (US\$ 000s)	Procurement Method	Prior or Post Review	Bid Closing/Opening	Date Contract Signing
1*	Regional Semen Collection Centers Infrastructure (Laboratory, House, Bull Shades, Clinic, Office, etc.)	301.5	NCB	Post	15/04/11	11/06/11

* Launch is subject to study on animal breeding services, to be conducted by AGP.

2. Consulting Services

(a) List of consulting assignments with shortlist of international firms (Table A8.5).

Table A8.5: Consulting Assignments with Shortlist of International Firms

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$ 000s)	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
1	Watershed Management Performance Assessment Study	200.00	QCBS	Prior	20/12/10	25/5/10
2	Data Collection for baseline survey,	300.00	SSS	Post	25/9/10	5/11/10

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$ 000s)	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
3	TA for Soil Laboratory (Study to Identify Specific Regional Need)	15.00	IC	Post	20/01/11	20/2/11
4	Financial audits	5.00	CQS	Post	10/4/10	25/11/10
5	Project Coordinator	18.00	IC	Post	10/4/10	11/1/10
6	M&E Specialist	18.00	IC	Post	10/4/10	11/1/10
7	Agricultural Production Commercialization Specialist	18.00	IC	Post	10/4/10	11/1/10
8	Rural Infrastructure Specialist	18.00	IC	Post	10/4/10	11/1/10
9	Internal Auditor	18.00	IC	Post	10/4/10	11/1/10
10	Finance Specialist	18.00	IC	Post	10/4/10	11/1/10
11	Procurement Specialist	18.00	IC	Prior	10/4/10	11/1/10
12	Safeguards Specialist	18.00	IC	Post	10/4/10	11/1/10

(b) Consultancy services estimated to cost above US\$ 200,000 per contract and Single-Source Selection of consultants (firms), regardless of the contract amount, will be subject to prior review by the Bank.

(c) Shortlists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(d) All consultancy services for the selection and employment of procurement and legal consultants regardless of the contract amount shall be subject to the Bank's prior review.

(e) Terms of reference for all contracts shall be cleared by the Bank.

(f) The selection of individual consultants will normally be subject to post review. Prior review will be done in exceptional cases only, for example, when hiring consultants for long-term technical assistance or advisory services for the duration of the project and prior review of these contracts will be identified in the Procurement Plan.

Annex 9: Economic and Financial Analysis
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

A. Introduction

1. An economic and financial analysis of the project was undertaken in order to assess the economic soundness of the AGP and the likely impact of project interventions on the beneficiaries. The economic analysis takes into account the estimated incremental benefits and costs of the AGP to society as a whole. Farm and value-chain enterprise budgets have been prepared for selected representative enterprise models in order to assess the financial impact from the point of view of the beneficiaries and to provide the basis for the economic analysis. Furthermore, the AGP's expected impact on GoE finances has been examined. The findings of the analysis are summarized below. More details are provided in the Attachments to this Annex and the Project File.

B. Project area and beneficiaries

2. The AGP will focus on underinvested areas with a good potential for agricultural growth. It seeks to increase agricultural productivity and market access in 83 woredas in four selected regions: Oromiya, Amhara, Tigray, and SNNPR. Interventions such as capacity building, support to sub-projects and irrigation/market development will be based on *demand-driven* development investment programs presented by the woredas (Sub-components 1.1, 1.2, 2.1, and 2.2). Development of value chains for key commodities (Sub-component 1.3) will be *market-led*, following the selection of a limited number of value-chain commodities for each of the AGP regions, based on value-chain analyses and stakeholder consultations.

3. 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 9.6 million. An estimated 1.9 million agricultural households in about 2,108 kebeles will primarily benefit in the following ways: (a) *directly*, through capacity building, support to farmer sub-projects, value-chain enterprises, and irrigated agriculture and (b) *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 youths. Other beneficiaries of the AGP are farmer organizations, large commercial farms, traders, agro-processors, and public and private advisory services.

4. It is recognized that for agricultural growth to contribute fully to overall economic growth, food security and poverty reduction, it must be sustained over the long term and the AGP expanded to other high-potential areas. Therefore it is anticipated that, based on implementation experience, the AGP would be expanded to other high-potential woredas in the country through subsequent phases.

C. AGP benefits

5. Specific benefits expected from the project include improved productivity, value-adding, and market opportunities, resulting in increased incomes, employment opportunities, and food security of the smallholder households engaged in the commodities targeted by the project.

These benefits will primarily result from: (a) increased output and productivity; (b) reduced post-harvest losses; (c) produce processing and/or packaging; (d) improved access to goods, services, markets, and information; (e) reduced transaction costs; (f) improved product quality and increased producer (farm-gate) prices; and (g) improved economies of scale. Increased output, income, and employment in the AGP woredas will result in increased demand for goods and services, which is expected to generate additional income and employment effects, and increase government 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 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.

6. Major *institutional benefits* expected from the project are: (a) producer and marketing groups are effectively functioning and linked to markets; (b) woreda, kebele, and sub-kebele committees, and local communities are sustainably managing their road and market infrastructure investments; and (c) public and private sector operators are providing quality services that are demanded by smallholder producers and rural entrepreneurs.

7. The *social benefits* expected from the project result from its focus on rural poverty reduction and consideration of social factors in the selection of groups, in particular the targeting of women and youths. The project will provide alternative sources of incomes for poor rural households and serve to diversify rural incomes, thereby contributing to reduced vulnerability.

8. The project's support to sustainable land and water management, including small-scale irrigation, water harvesting, and watershed management is expected to result in numerous *economic and environmental benefits*, including: (a) reduced production risk; (b) mitigated effects of droughts; (c) improved sediment retention and flood control; (d) avoided yield loss caused by soil fertility degradation and soil erosion; (e) improved access to water; and (f) carbon sequestration. Promoting sustainable agro-based enterprises is expected to deliver positive environmental outcomes, for example, in terms of energy-efficient production and safe disposal of agro-industrial waste products.

9. Attachment Table 1 provides an overview of main potential project benefits under each sub-component while Attachment Table 2 summarizes the project interventions that are expected to directly increase crop and livestock productivity, value addition, and marketed output.

D. Potential market and price effects

10. The expected increase of agricultural production and volume of marketed agricultural products resulting from the AGP can have a negative impact on producer revenues if they lead to reduced producer prices in the face of limited agricultural demand. Basically, the difference between producer (farm-gate) prices and retail prices is made up of two types of costs: (a) transaction costs (for example, transport and marketing costs) and (b) costs associated with value addition, involving a transformation to some degree of the commodity from one form to another (for example, through processing and packaging). The price effects of interventions in a value

chain are the result of a complex interaction of: (a) demand factors, both for the particular commodity under consideration but also in related markets for substitutions and complements and (b) supply-side factors. In quantitative terms, the effects depend on the absolute and/or relative measures of: own- and cross-price elasticities of demand; elasticities of supply; and rates of substitution. In addition, trends in incomes mean that the income elasticity of demand is also important. In the absence of a quantitative model of the economy it is impossible to accurately predict what will happen to prices. However, given the high unmet domestic demand and/or export market potential for commodities targeted by the project (such as cereals, oilseeds, coffee, fruits, vegetables, milk, and meat), major adverse effects on retail and producer prices of these commodities, as a result of the expected increase in supply, are unlikely.

11. Furthermore, it can be assumed that the AGP will more than offset any potential negative effects of reduced producer and retail prices. This effect will be due to: (a) increased productivity/reduced cost per unit of output; (b) a reduction in transaction costs; and (c) increased value addition as a result of one or a combination of the following factors, among others: productivity gains, increased output (increased yields and/or reduced losses), improved quality, and economies of scale (the latter also has a direct impact on transaction costs).

E. Economic analysis

12. **Methodology and assumptions.** The economic analysis is primarily based on an estimation of (a) farm- and enterprise-level incremental benefits that are due to the project; (b) incremental incomes resulting from increases in value of sales of commodities supported; and (c) avoided yield losses resulting from sustainable watershed management (see Attachment Table 1).

13. The benefits from improved road and market infrastructure have been reflected in increased value addition and income of farm and value-chain enterprises supported under 1.2, 1.3 and 2.1. It should be noted that no attempt has been made to estimate *direct* benefits from road construction (for example, reduced transport costs, time savings) and other *indirect* benefits from roads and markets (for example, enhanced overall economic development).

14. Financial budgets for representative crop, livestock, and value-chain enterprises have been prepared (see Financial Analysis below and Annex 9 Attachment B in the Project File) and converted to economic budgets (valued at economic prices, see Project File (B)). The enterprise models provide the basis for estimating the potential income gains from sub-projects supported under Sub-component 1.2 and irrigation development supported under Sub-component 2.1. (See Outreach Assumptions by Sub-component for Economic Analysis in Attachment Table 4). Attachment Table 2 presents for each of the key project interventions the main potential financial/economic impact. For the purpose of the analysis, the following assumptions are made:

Period of analysis:

- The analysis is based on a 20-year period, during which the AGP will generate benefits, including the 5-year project implementation period.

Project outreach and phasing of benefits:

- Project outreach assumptions and phasing of benefits by sub-component and main activity are presented in Attachment Table 3 and Table 4.

Costs and prices:

- *Economic Project Costs:* The financial project costs have been converted to economic costs, which exclude taxes and duties and price contingencies, using the COSTAB software.
- There are no further investment costs after PY5. However, the annual operation and maintenance (O&M) costs of the irrigation, road and market infrastructures were included in the economic analysis until PY20 as these costs will have to be incurred if the future benefits of the AGP are to be sustained.
- *Farm and enterprise budgets:* Import or export parity prices have been calculated for internationally traded commodities (for example, wheat, maize, coffee) and chemical fertilizers using World Bank commodity price data. All other commodities and inputs have been valued on the basis of the prevailing market prices using CSA survey data or mission data. All prices are current (first quarter of 2010) prices. Family labor has been valued at an estimated opportunity cost of ETB 12 per person day.
- The impact of assumed changes in relative prices over time is not included in the baseline analysis. The Bank's current commodity price data projections until 2015 suggest an average price increase for major agricultural commodities of about 2.5 percent and a decrease of fertilizer prices of about 10.7 percent. Projecting constant prices for the baseline scenario will thus produce a conservative estimate of the economic benefits.

15. **Economic viability and sensitivity analysis.** The economic internal rate of return (ERR) of the project is estimated at 19.9 percent with a net present value (NPV) of ETB 1,838 million (US\$ 138 million). These results indicate that, on the basis of an opportunity cost of capital of 12 percent, the project will generate a satisfactory ERR and is therefore justified on economic grounds. The results of the sensitivity analysis are summarized in Table 1. The AGP's economic viability is robust to adverse changes in project costs, and the project still remains viable with increases in capital and recurrent costs of up to 72 percent. The project is also robust to changes in incremental benefits and only becomes uneconomic, if incremental benefits are reduced by 42 percent. A delay project benefits by two years reduces the ERR to 14.7 percent.

Annex 9 Table 1: Economic Rate of Return (ERR) and Sensitivity Analysis

Base Case	Change of Benefits					Change of Costs		Delay of Benefits		
	-30%	-20%	-10%	+10%	+20%	+10%	+20%	1 year	2 years	
19.9%	14.6%	16.5%	18.2%	21.4%	22.9%	18.4%	17.1%	17.0%	14.7%	
Total Costs							Total Benefits			
Switching Values /a							+ 72.0%		- 42.0%	

^a Switching value: percent change in cost or benefit streams to obtain an ERR of 12 percent, i.e., economic viability threshold.

F. Financial analysis

16. The main objective of the financial analysis is to examine the financial viability of the main farm and value-chain enterprises that will be supported by the project and assess their potential for increased profitability and income as a result of project interventions. For the purpose of the analysis, representative financial crop, livestock, and value-chain enterprise models have been prepared on the basis of the farming system analysis study carried out during

project preparation and information available from similar projects and programs supported by the government and DPs (see details in Project File (B, D)). The models compare the “future without project” and “future with project” scenarios. Without the project, it is expected that farmers would continue with the existing low-input, low-output production systems and that opportunities for increased value addition and marketing in the project area remain limited. The available information from ongoing interventions supporting agricultural and value-chain development in Ethiopia suggests that there is scope for significant increases in productivity, marketed output and profitability of enterprises (for example, by building management capacity, introducing improved technologies and management practices, providing market infrastructure and facilitating access to finance), which will be reflected in the “future with project” scenario of the representative models.

17. The financial results of major crop enterprise models are summarized in Tables 2-4 below (see Project Files for further details including livestock and value-chain enterprise budgets).

Annex 9 Table 2: Summary of Financial Results of Main Crop Models – With Project (Rainfed)

		Wheat	Teff	Maize	Chickpea	Lentil	Faba Bean
Yield (MT)		3.20	2.00	5.29	2.40	2.10	1.95
Total Revenue (ETB)		14,816	17,680	18,790	14,928	15,141	7,995
Variable Costs /a (ETB)		6,251	5,144	2,202	3,345	2,871	2,628
Gross Margin (ETB)		8,565	11,688	16,588	11,583	12,270	4,881
Hired Labor (pers.day)		52	63	18	37	31	40
Family Labor (pers.day)		56	71	135	38	32	41
Total Labor (pers.day)		108	134	153	75	62	81
Fixed Costs (ETB)		117	117	117	117	117	117
Net Income /b (ETB)		8,447	12,419	16,471	11,466	12,152	5,249
Return to Family Labor/pers. d. (ETB)		151	177	123	305	387	132
Return to Total Labor/pers. d. (ETB)		91	69	111	111	139	53

\a Excluding family labor.

\b Family labor not valued.

Source: Adapted from various EIAR and DZARC papers; 2009 prices used.

Annex 9 Table 3: Net Income of Selected Crop Enterprises - Rainfed (ETB/ha) /a

	Present	Future Without Project	Future With Project	Increment	
	ETB	ETB	ETB	ETB	US\$
Wheat	1,439	1,439	8,447	7,008	527
Teff	5,804	5,804	12,419	6,615	497
Maize	8,167	8,167	16,471	8,304	624
Chickpea	3,468	3,468	11,466	7,998	601
Lentil	5,400	5,400	12,152	6,752	508
Faba Bean	2,439	2,439	5,249	2,811	211

\a Family labor not valued

Source: Adapted from various EIAR and DZARC papers; 2009 prices used.

Annex 9 Table 4: Net Income of Selected Crop Enterprises - Irrigated (ETB/ha) /a

	Present	Future Without Project	Future With Project	Increment	
	Rainfed		Irrigated /b	ETB	US\$
	ETB	ETB	ETB		
Teff - Wheat	Teff		Wheat		
	6,020	6,020	6,815	796	60
Maize	Open pollinated		Hybrid		
	4,540	4,540	15,390	10,850	816
Millet - Maize	Millet		Hyb. Maize		
	-289	-289	14,525	14,814	1,114
Chickpea	621	621	6,696	6,075	457

^a Family labor not valued.

^b In Year 5 of development.

Source: Adapted from World Bank (2007), "Ethiopia Irrigation and Drainage Project – Appraisal Report," Washington, DC; 2009 prices used.

G. Fiscal impact

18. In the short term, the fiscal impact of the project will be neutral, given that the government's contribution to project costs primarily comprises salaries of existing staff. The government's estimated share of incremental annual O&M costs of roads and market infrastructure (constructed/rehabilitated/improved under the project) after PY5 amounts to ETB 44.7 million (US\$ 3.4 million) at current prices⁸⁶.

19. However, in the medium to long term, the potential positive fiscal impact of the project will be substantial, mainly due to: (a) increased output, income, and employment, resulting in increased tax revenues, and (b) multiplier effects due to increased economic activities in rural areas, resulting in increased demand for goods and services, which is expected to generate additional income and employment effects. Furthermore, substantial foreign exchange earnings/savings can be expected, resulting from an increase in exports and/or a reduction in imports.

H. Concluding remarks

20. On the basis of the rather conservative assumptions described in above, the project can be justified on economic grounds. It should be kept in mind that not all potential economic benefits (for example, environmental benefits; other direct and indirect benefits of rural roads) have been included in the analysis. Furthermore, the likely multiplier effects described above have not been quantified. Therefore, it is safe to assume that the estimated economic benefits are on the low side of the potential economic returns that can be expected when the AGP is implemented.

⁸⁶ It is assumed that 20 percent will be covered by the beneficiaries. All O&M costs of irrigation and watershed development under sub-component 2.1 are expected to be borne by the beneficiaries and local communities.

I. Economic and Financial Analysis Work in the Project File (see also Annex 12)

- A: Overview of AGP Woredas including Number of Kebeles and Population
- B: Financial Crop, Livestock, and Value-Chain Enterprise Budgets
- C: Economic Benefits and Costs
- D: List of References
- E: Overview of Potential Value-Chain Commodities to be supported under AGP

Annex 9: Attachments

Annex 9 Attachment - Table 1: Overview of Main Potential Project Benefits

Sub-Component Outcome	Main Potential Benefits	Included in Economic Analysis / Remarks
<p>1.1 Institutional Strengthening and Development Key public advisory services offer quality services in response to farmers' demand</p>	<ul style="list-style-type: none"> - Improved efficiency and effectiveness of public advisory services to promote enhanced productivity and value addition; - Enhanced capacity of farmers' organizations resulting in: (i) improved access to goods, services, markets and information; (ii) economies of scale; (iii) improved bargaining power. 	<p>No Pre-condition for realizing the benefits under 1.2 and 1.3.</p>
<p>1.2 Scaling up Best Practices Sub-projects for improved productivity, value addition and marketing realized and sustainably managed</p>	<ul style="list-style-type: none"> - Increased output and/or productivity; - Reduced losses; - Improved product quality/increased producer prices; - Enhanced market opportunities; - Reduced transaction costs; - Increased employment opportunities; - Increased value addition and income; - Improved food security. 	<p>Yes Based on incremental benefits from representative sub-projects and outreach/adoption assumptions.</p>
<p>1.3 Marketing and Agribusiness Development Market orientation and commercialization increased</p>	<ul style="list-style-type: none"> - Improved access to goods, services, markets and information; - Increased output and/or productivity; - Reduced losses; - Improved product quality/increased prices; - Enhanced market opportunities; - Increased market/demand for goods and services; - Reduced transaction costs; - Increased employment opportunities; - Increased value addition and income; - Reduced consumer prices; - Net savings on food expenditure/improved food security; - Improved availability of commodities of better quality; - Foreign exchange earnings/savings resulting from an increase in exports and/or a reduction in imports. 	<p>Yes Based on estimated increases in value of sales of commodities supported.</p>
<p>2.1 Small-scale Agricultural Water Development and Management Demand-driven infrastructure investments for improved agricultural productivity realized and sustainably managed</p>	<ul style="list-style-type: none"> - Increased output and/or productivity; - Increased income and employment opportunities; - Reduced production risk/mitigated effects of droughts; - Improved sediment retention and flood control; - Reduced O&M cost of irrigation; - Avoided yield loss due to soil fertility degradation and soil erosion; - Improved access to water; - Carbon sequestration. 	<p>Yes Based on incremental benefits from irrigated agriculture and from avoided yield losses resulting from sustainable watershed management.</p>
<p>2.2 Small-scale Market Infrastructure Development and Management Demand-driven infrastructure investments for improved access to market realized and sustainably managed</p>	<ul style="list-style-type: none"> - Enhanced market opportunities; - Reduced transaction costs; - Improved access to goods and services; - Reduced costs of inputs; - Increased producer prices. 	<p>Indirectly Benefits from improved road and market infrastructure will be reflected in increased value addition and income of farm and value-chain enterprises supported under 1.2, 1.3 and 2.1.</p>

Annex 9 Attachment - Table 2: Overview of Project Interventions Expected to *Directly* Increase Crop and Livestock Productivity, Value Addition, and Marketed Output /a

Sub-component - Area of Intervention Key interventions/technologies promoted	Main Potential Financial/Economic Impact
1.1 Institutional Strengthening and Development	
- Animal Health Services Support to woreda veterinary clinics, animal health posts and regional animal disease surveillance	Reduced livestock mortality, increased productivity (fertility, growth etc.)
1.2 Scaling up Best Practices	
- Crop production Improved seed Conservation farming/reduced tillage Integrated nutrient management Integrated pest management Improved labor-saving farm tools/implements/small machinery	Increased production/productivity; Reduced costs, increased production/productivity; “ “
- Livestock production Improved fodder/pasture and other management practices	Increased production/productivity.
- On-farm processing and value addition Low-cost post-harvest management (processing, cleaning, grading, packing, storage and transport)	Improved produce quality and food safety, increased producer prices, higher volumes of marketed quality produce.
1.3 Marketing and Agribusiness Development	
- Innovation/demonstration funds and linkages to credit Value-chain enterprise support	Improved productivity and value addition.
- Seed production Certified and licensed farmer group seed growers; Seed cleaning equipment/seed processing facilities; Links between community and public/private seed growers, and cooperative unions for market access.	Increased production/productivity and market access.
- Animal breeding AI for crossbreeds and natural service for native breeds.	Increased production/productivity.
2.1 Small-scale Agricultural Water Development and Management	
- Small-scale irrigation development and management Small-scale community-based irrigation	Increased production/productivity.
- Water harvesting and micro-irrigation Improved water control/capture in rainfed areas, including watershed management	Increased production/productivity.
2.2 Small-scale Market Infrastructure Development and Management	
- Feeder roads Feeder road development - Markets Market center development	Improved market access, reduced transaction costs.

/a Excluding project activities that are contributing indirectly, as precondition for successful promotion of these interventions / technologies (for example, capacity building such as regular extension support and support to farmer organizations).

Annex 9 Attachment - Table 3: Project Phasing and Outreach Assumptions

No. of Woredas and Kebeles supported

Total no. of AGP Woredas		83		Project Year				
		1	2	3	4	5		
No. of AGP Woredas	New /a	83						
	Cumulative /a	83	83	83	83	83	83	
Total no. of Kebeles in AGP Woredas		2,108		Woreda Implementation Year				
Avg. no. of Kebeles per Woreda		25.4						
Percentage of Kebeles supported by AGP /b		100%						
Avg. no. of Kebeles supported by AGP/Woreda		25.4						
Percentage of Kebeles supported by AGP				40%	60%			
Avg. no. of Kebeles supported per AGP Woreda		New /a		10.2	15.2			
No. of Kebeles supported/AGP Woreda starting in Year 1		/c		10.2	10.2	10.2	10.2	
No. of Kebeles supported/AGP Woreda starting in Year 2		/c			15.2	15.2	15.2	
No. of Kebeles supported/AGP Woreda starting in Year 3		/c				0.0	0.0	
Avg. no. of Kebeles supported per AGP Woreda		Cumulative /a/d		10.2	25.4	25.4	25.4	
				Project Year				
				1	2	3	4	
				5				
Total no. of Kebeles supported in AGP Woredas		New /a		843	1,265	0	0	
No. of Kebeles supported starting in Year 1		/a /c		843	843	843	843	
No. of Kebeles supported starting in Year 2		/a /c			1,265	1,265	1,265	
No. of Kebeles supported starting in Year 3		/a /c				0	0	
Total no. of Kebeles supported in AGP Woredas		Cumulative /a/d		843	2,108	2,108	2,108	

Estimated No. of Agricultural Households reached

Avg. no. of agric. hh per Kebele		919		Kebele Implementation Year				
Avg. percent. of agric. hh reached in a AGP Kebele /b /e		100%		1	2	3	4	5
Avg. no. of agric. hh reached in a AGP Kebele /b		919						
Percentage of agric. hh reached in a AGP Kebele		/a /c		25%	25%	25%	25%	
Avg. no. of new agric. hh reached in a AGP Kebele		/a /c		230	230	230	230	
Tot. no. of new agric. hh reached in AGP Kebeles starting in Year 1		/a /c		193,803	193,803	193,803	193,803	
Tot. no. of new agric. hh reached in AGP Kebeles starting in Year 2		/a /c			290,705	290,705	290,705	290,705
Tot. no. of new agric. hh reached in AGP Kebeles starting in Year 3		/a /c				0	0	0
Tot. no. of new agric. hh reached in AGP Kebeles		/a /c		193,803	484,508	484,508	484,508	290,705
Tot. no. of agric. hh reached in AGP Kebeles		Cumulative /a		193,803	678,311	1,162,818	1,647,326	1,938,031

Estimated Project Costs per Beneficiary Household

	USD
Total Project Costs	281,182,773
Tot. no. of agric. hh reached /f	1,938,031
Average Project Costs per beneficiary household (agric. hh reached /e /f)	145

\a End of year

\b End of project

\c Support period per Kebele: 4 years

\d Excluding Kebeles that phased out

\e Directly and indirectly.

See also Annex 9 Attachment Table 5: Project Outreach Assumptions by Sub-component for Economic Analysis.

\f Excluding hh outside AGP Woredas which may benefit from value chain development under sub-component 1.3

Annex 9 Attachment - Table 4: Project Outreach Assumptions by Sub-component for Economic Analysis

	Year					
	1	2	3	4	5	6 /a
Sub-component 1.2 Scaling up of Best Practices						
Support to farmers' innovation and demonstration proposals (sub-projects)						
Total no. of new groups supported	1,687	3,374	5,062	5,062	1,687	
Total cumulative no. of groups supported	1,687	5,061	10,123	15,185	16,872	
Percentage of groups successfully implementing sub-projects /a	65%					
Total no. of new groups successfully implementing sub-projects /a		1,097	2,193	3,290	3,290	1,097
Total cumulative no. of groups successfully implementing sub-projects		1,097	3,290	6,580	9,870	10,967
Avg. no. of farmers per group	20					
Avg. percentage of group members benefiting from sub-projects	80%					
Avg. no. of group members per group benefiting from sub-projects	16					
Cumulative no. of farmers benefiting from sub-projects	0	17,545	52,634	105,279	157,924	175,469
Type of sub-projects						
Crop production	40%					
Livestock production	40%					
Processing/value addition/storage	20%					
No. of new successful groups		439	877	1,316	1,316	439
Cumulative no. of successful groups		439	1,316	2,632	3,948	4,387
No. of new successful groups		439	877	1,316	1,316	439
Cumulative no. of successful groups		439	1,316	2,632	3,948	4,387
No. of new successful groups		219	439	658	658	219
Cumulative no. of successful groups		219	658	1,316	1,974	2,193
	No. of Years after Intervention					
	0	1	2	3	4	5
Net incremental income per farm hh /b		800	1,600	2,400	2,400	2,400
Crop production (ETB)		600	1,000	1,400	1,400	1,400
Livestock production		500	800	1,100	1,100	1,100
Processing/value addition/storage						
Net incremental income per group /b	0	12,800	25,600	38,400	38,400	38,400
Crop production (ETB)	0	9,600	16,000	22,400	22,400	22,400
Livestock production	0	8,000	12,800	17,600	17,600	17,600
Processing/value addition/storage	0					

\a Year 1 after project ends.

\b Average based on enterprise budgets in Appendices. Economic prices, family labour valued at opportunity costs.

Annex 9 Attachment - Table 4: Project Outreach Assumptions by Sub-component for Economic Analysis (contd.)

			Year					
			1	2	3	4	5	6 /a /c
Sub-component 1.3 Market and Agribusiness Development								
Strengthening agribusiness along value chains of selected commodities			Incremental percentage increase in value of sales p.a./d					
	<u>Estimated value of sales</u>	<u>Estim.avg. income as % of sales</u>						
<u>Commodity group</u>	<u>p.a. ('000 ETB) /b</u>	<u>value</u>						
Cereals	253,460	25%			0.5%	1%	1%	1%
Oilseeds and Pulses	3,863,603	25%			0.5%	1%	1%	1%
Potatoes	40,567	25%			0.5%	1%	1%	1%
Coffee	5,499,819	25%			0.5%	1%	1%	1%
Fruits and Vegetables	3,013,239	25%			0.5%	1%	1%	1%
Dairy	5,511,145	35%			0.5%	1%	1%	1%
Cattle Beef	7,108,687	20%			0.5%	1%	1%	1%
Sheep/Goats	3,286,429	20%			0.5%	1%	1%	1%
Honey/Wax	92,856	25%			0.5%	1%	1%	1%

\a Year 1 after project ends.

\b Total in AGP Regions in which commodity group is supported.

Source: Estimate based on CSA Agricultural Sample Survey 2008/2009, EGTE price data and other available statistics.

Figures are for 2008/2009 season and include domestic and export sales.

The point of measurement is at the highest level, e.g. wholesale, agro-processing or export level.

\c Assumption: Estimated increase p.a. continues at same rate after Year 6.

\d Increase above "without project" increase in value of sales.

		Year					
		1	2	3	4	5	6 /a
Sub-comp. 2.1 Small Scale Rural Infrastructure Development and Management							
SSI rehabilitation/improvement of existing schemes							
New area of existing schemes rehabilitated/improved (ha)		400	600	800	800	400	
Cumulative area of existing schemes rehabilitated/improved (ha)		400	1,000	1,800	2,600	3,000	3,000
SSI new construction							
New area of new schemes constructed (ha)			2,000	3,000	3,000	2,000	
Cumulative area of new schemes constructed (ha)			2,000	5,000	8,000	10,000	10,000
Water harvesting and micro-irrigation technologies							
New area with water harvesting and micro-irrigation technologies (ha)		800	1,700	1,000	1,000	500	
Cumulative area with water harvesting and micro-irrigation technologies (ha)		800	2,500	3,500	4,500	5,000	5,000
Implementation of best watershed management practices							
New area with best watershed management practices (ha)		2,000	23,000	25,000	25,000		
Cumulative area with best watershed management practices (ha)		2,000	25,000	50,000	75,000	75,000	75,000
Net incremental income per ha (ETB) /b		No. of Years after Intervention					
		0	1	2	3	4	5
SSI rehabilitation/improvement of existing schemes			500	1,000	1,500	1,500	1,500
SSI new construction			1,000	2,000	3,000	3,000	3,000
Water harvesting and micro-irrigation technologies			500	1,000	1,500	1,500	1,500
Implementation of best watershed management practices							
- Resulting from estimated avoided yield loss p.a.			1%	1%	1%	1%	1%
- Avg. output per ha p.a. without yield loss (ETB)	10,000						/c

\a Year 1 after project ends.

\b Average based on crop enterprise budgets in Appendices. Economic prices, family labour valued at opportunity costs.

\c Assumption: Estimated avoided annual yield loss continues at same rate after Year 6.

Annex 10: Safeguard Policy Issues
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

A. Introduction

1. Since the scope and nature of the sub-projects and their site-specific locations will not be known prior to appraisal, the specific instrument proposed for analyzing and mitigating potential environmental and social risks is an ESMF, which includes an RPF, a description of measures to mitigate pest problems, risks associated with physical cultural resources, issues of dam safety, and a section on projects related to international waterways. For instance, although AGP funds would not be used to manufacture, purchase, and distribute agrochemicals, it is likely that support through AGP to agriculture would encourage farmers to use more inorganic fertilizers and pesticides. The ESMF contains a section on pest management and integrated pest management that would elaborate on what actions need to be undertaken to minimize environmental, health and safety impacts. Similarly, the ESMF includes procedures and measures for chance finds, to be undertaken in the event that culturally significant materials are discovered during land clearing and excavation. Moreover, the ESMF includes screening criteria to be used when selecting AGP sites and sub-projects so that natural habitats and forests are completely avoided.

2. As part of the preparation process, a Social Assessment has been undertaken to assess the social characteristics of local communities, including determining the existence of vulnerable groups, sacred and religious sites, and places of cultural importance at national, regional, and/or local levels in the AGP areas, and analyze opportunities and constraints of women and men to participate in agricultural growth and in local organizations; conduct consultations with local stakeholders; and establish socio-economic and physical cultural resources baseline information. In addition, the Social Assessment has assessed the institutional capacity of the AGP implementing agencies to manage and monitor safeguard issues. The Social Assessment studied issues related to OP/BP 4.10, but found no groups that would lead to triggering OP4.10. To ensure social inclusion of the “vulnerable” groups, the Social Assessment has identified various “vulnerable” groups in the AGP woredas, the needs of which will be responded to in a culturally appropriate manner.

3. The findings and recommendations arising out of the Social Assessment have been incorporated in the ESMF. The findings of several other studies related to social, environmental and physical cultural resources, particularly the Rapid Baseline and the Institutional Assessment, are also reflected in the AGP design.

B. Safeguards related to the project

4. The sub-projects under Component 1.2 and Component 2 will trigger the following safeguards:

5. **Environmental Assessment (OP/BP 4.01).** The AGP is proposed as a **Category B** project, given that it would finance activities, especially those related to groundwater extraction, small-scale irrigation schemes, rehabilitation and upgrading of rural roads, establishment of

product storage facilities, and introduction of innovative productivity-enhancing approaches that may result in the increased use of agrochemicals such as inorganic fertilizers and pesticides. Since the scope and nature of the sub-projects and their site-specific locations are not known at the time of preparation, the specific instrument proposed for analyzing potential environmental risks is an ESMF. Once specific sub-projects are identified, EAs and/or EMPs will be prepared, as required.

6. **Natural Habitats (OP/BP 4.04) and Forests (OP/BP 4.36).** AGP activities will not be undertaken in the natural habitats. The AGP will also not support cutting down of forests and converting these into agricultural lands. The ESMF provides screening criteria to be used when selecting AGP sites so that natural habitats and forests are completely avoided. AGP will not finance any activities that would have adverse impacts on forest, natural, and sensitive habitats.

7. **Pest Management (OP 4.09).** Although AGP funds will not be used to manufacture, purchase and distribute agrochemicals, it is likely that AGP support to agriculture would encourage farmers to use more inorganic fertilizers and pesticides. The ESMF has responded sufficiently to this by developing a section on pest management and integrated pest management that would elaborate on what actions need to be undertaken to minimize environmental, health and safety impacts. Once environmental and safety hazards are identified or expected from the use of agrochemicals, the project will prepare PMPs/IPMPs prior to commencement of the sub-projects.

8. **Physical Cultural Resources (OP/BP 4.11).** The Social Assessment indicates that while the sub-projects and infrastructure investments will affect no large cultural, historical, and religious resources, at the community level a number of sacred and ritual sites of religious and cultural importance will trigger OP 4.11 and therefore require mitigation. Sites containing indigenous trees, rivers, or springs are revered as symbols in traditional spiritual beliefs. Other sites are open lands kept for important ritual ceremonies, social ruling, and sanctions. The sub-project investments have potential for causing negative impact on these physical cultural resources. Potential negative impacts would be caused by construction and operation of small-scale irrigation schemes, water canals, reservoirs, rural roads, market and storage building, increased traffic, and so on. The ESMF has screened and developed procedures and measures for chance finds, to be undertaken in the event that culturally significant materials are discovered during land clearing and excavation.

9. **Involuntary Resettlement (OP/BP 4.12).** The AGP will not undertake any sub-projects that will displace people. However, it would support small-scale rural infrastructure that might affect land holdings of individual farmers. While individual sub-projects are not yet identified, there will be support for activities such as small-scale infrastructure to improve productivity as well as other rural infrastructure such as feeder roads. The AGP has developed an RPF as part of the ESMF.

10. **Indigenous Peoples (OP/BP 4.10).** The AGP does not trigger OP4.10.

11. **Safety of Dams (OP/BP 4.37).** AGP would not finance any new establishment or rehabilitation of large-scale irrigation facilities and dams above 15 meters. However, AGP resources could be used for the financing of check dams or small dams for water storage and other purposes and will finance activities that may rely on the performance of an existing dam.

Therefore, the GoE will develop 3 months after effectiveness and, in any case, before the start of such activities, Small Dam Safety Guidelines acceptable to the Bank. 3 months prior to AGP closing, the GoE would submit a report on the safety-related issues of the dams support by AGP to the Bank. The Small Dam Safety Guidelines would set out generic safety measures for the construction supervision and quality assurance, instrumentation, and operation and maintenance of, and emergency preparedness in relation to Small Dams. Request for proposals for technical service contracts related to dam design, construction or operation would be subject to prior review; and qualified professionals satisfactory to the Bank would be contracted. Reports related to Project dams such as technical reports, reports related to safety of, or assessments of dams would be submitted to the Bank for its review within 15 days after completion. The GoE would also submit to the Bank for its review, as soon as available, all information relevant to the relevant dam's safety.⁸⁷ In the event that AGP-financed activities may have to rely on an existing dam, the Bank will review previous assessments of dam safety or recommendations and safety program already in operation for the particular dam prior to commencement of activities. Generally, it is envisaged that no significant environmental and social risks may arise.

12. **Projects on International Waterways (OP/BP 7.50).** AGP wordas are located in international water basins. While the impact of individual sub-projects such as small-scale irrigation would be negligible and the cumulative abstractions minor, riparian countries have been informed on the AGP and its potential impact on international waterways. The World Bank on behalf of the GoE notified the riparian countries, i.e. the Governments of Burundi, the Democratic Republic of Congo, Egypt, Eritrea, Kenya, Rwanda, Somalia, Sudan, Tanzania, and Uganda. The Government of Egypt asked for further clarification and, after having received this, stated no objection to the AGP. Similarly, the Government of Burundi and Tanzania provided no objection to the AGP. The Government of Eritrea pointed out that an incorrect map had been inserted and, on this basis, objected to the AGP. The World Bank acknowledged the enclosure of an incorrect map, corrected the mistake in an amendment to the notification to all riparian countries, and assured the Eritrean government that the error was unintentional and that there will be no project activities in any of the areas in dispute between Eritrea and Ethiopia. The Bank also received a letter on June 22, 2010 from the Government of Kenya, providing its qualified no-objection to the Project. The letter stated that “the ‘No Objection’ is given on the understanding that Ethiopia and Kenya first agree to start negotiating a basic cooperative framework” to address a broader set of riparian issues not directly relevant to the project in question. The response did not reflect any objection to the merits of the proposed AGP activities, as was subsequently confirmed through further discussions with the Government of Kenya. Having considered all the responses from the riparian countries World Bank management assessed that there is no basis for changing the assessment that the AGP activities will not have appreciable effect on the quality or quantity of water for the riparian countries concerned.

13. **Projects in Disputed Areas (OP/BP 7.60).** AGP will not support activities in areas under dispute between Ethiopia and its neighbors. The ESMF screening mechanism ensures the implementation of this safeguard.

⁸⁷ This includes cost estimates, construction schedules, procurement procedures, technical assistance arrangements, environmental and social assessments, along with the dam proposal, technical aspects, inspection reports, and any action plans relating to dam safety.

C. Borrower capacity

14. MoARD, has experience working with Bank projects but would need support to augment safeguards management and oversight capacity. In early 2009, the federal Environmental Protection Authority (EPA) delegated safeguard review authority to seven technical line ministries, and MoARD is one of them. Safeguard management augmentation would likely be sourced and secured from country-based allies including the federal EPA, the regional authorities responsible for environmental management and protection, and local consulting firms. In some of the targeted regions, these public agencies are also responsible for land management/administration and land-use planning. The federal EPA and the regional level entities have reasonably good safeguard management capacities, especially in environmental safeguards and particularly in areas related to conducting reviews of safeguard reports and monitoring implementation of safeguard management action plans (for example, environmental management plans, pest management plans, resettlement action plans, and the like).

15. MoARD's capacity in both environmental and social safeguard is weak. It is expected that during the implementation phase, resources would be allocated to enhancing the capacities of public, private, and civil society capacity for environmental and social management, including those outside safeguards such as gender, participation, inclusion, and elite capture. The federal CU will have a full-time Safeguard and Social Expert, who would be responsible for safeguards as well as wider social issues such as strengthening the focus on women and youths in the AGP. The AGP would strengthen the BoARDS of the four regions by supporting a Safeguard Expert, who would work on the AGP as well as other projects.

D. Stakeholders, consultation, and disclosure

16. The key stakeholders are the AGP-affected communities of the selected 83 woredas, the MoARD, BoARDS, and the Land Administration and Environment Bureaus at regional, woreda, and kebele levels. The private sector, research, academia, and civil society constitute another category of stakeholders who will engage in delivering specific services and benefitting directly or indirectly from the AGP. The inputs from the Social Assessment and consultations have been reflected in the design of the AGP (such as: identification and mitigation of the Physical Cultural Resources and the identification of the "vulnerable social groups" within the kebeles). The inputs from the stakeholder consultations for the ESMF and for the Social Assessment have contributed to the identification of the potential adverse environmental and social impacts of the AGP, the refinement of the ESMF screening criteria, and the identification of mitigation measures in the ESMF and RPF. For example, the need to screen for and address the issue of Physical Cultural Property under the AGP became evident during the consultation process. Similarly, the consultation process identified the need to strengthen capacity to address safeguard issues including M&E, which has been reflected in AGP design. The ESMF has been disclosed before appraisal. The MoARD has disclosed the ESMF on its website and published it in a national daily newspaper and sent it to the local offices to be available for use and reference by the public. The ESMF is being translated from its current English and Amharic versions into other local languages. Public disclosures at the grassroots level in the form of workshops will be done as part of the awareness raising and training, to prepare the woredas, kebeles, and communities for the planning process.

Annex 11: Project Preparation and Supervision
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

1. The AGP preparation and implementation plan is as follows:

	Planned	Actual
PCN review		05/22/2009
Initial PID to PIC		10/13/2009
Initial ISDS to PIC		10/13/2009
Quality Enhancement Review		11/19/2009
Decision Meeting		03/18/2010
Appraisal		03/22/2010
Negotiations		05/25/2010
Board/RVP approval	09/30/2010	
Planned date of effectiveness	12/01/2010	
Planned date of mid-term review	03/01/2013	
Planned closing date	09/31/2015	

2. Key institutions responsible for preparation of the AGP:

- Federal level: Ministry of Agriculture and Rural Development
- Regional level: Bureaus of Agriculture and Rural Development
- Woreda level: Woreda Administration, Office of Agriculture and Rural Development

Key Development Partner Agencies:

- Canadian International Development Agency (CIDA)
- Embassy of the Kingdom of the Netherlands (EKN)
- Food and Agriculture Organization of the United Nations (FAO)
- United Nations Development Program (UNDP)
- United States Agency for International Development (USAID)

Bank staff and consultants who worked on the AGP included:

Name	Title	Unit
Achim Fock	Task Team Leader	AFTAR
Asa Britta Torkelsson	Senior Gender Specialist	AFTAR
Ashok Seth	Consultant, agriculture	AFTAR
Bekele Debele Negewo	Water Resources Specialist	MNSWA
Badre Lanedri	Irrigation Specialist	AFTWR
Edward Dwumfour	Senior Environmental Specialist	AFTEN
Eija Pehu	Lead Specialist	ARD
Espen Villanger	Senior Economist	AFTP2

Name	Title	Unit
Ingrid Mollard	Consultant, M&E	AFTAR
Jonathan Pavluk	Senior Counsel	LEGAF
Josef Loening	Economist	AFTAR
Laketch Mikael Imru	Co-Task Team Leader	AFTAR
Luis Schwarz	Senior Finance Officer	CTRFC
Menberu Allebachew	Land Administration Specialist	AFTAR
Meron Tadesse Techane	Financial Management Analyst	AFTFM
Mikael Abebe Ketsela	Consultant, Public Finance	AFTAR
Rahel Lulu	Program Assistant	AFCE3
Hawanty Page	Sr. Program Assistant	AFTAR
Riikka Rajalathi	Senior Agricultural Specialist	ARD
Salwa Mohamed Saleh	Junior Counsel	LEGAF
Samik Sundar Das	Senior Rural Development Specialist	SASDA
Shimelis W/Hawariat	Procurement Specialist	AFTPC
Teklu Tesfaye	Agricultural Economist & AGP Donor Coordinator	AFTPC
Yasmin Tayyab	Senior Social Development Specialist	AFTCS
George Mashinkila	Investment Officer	FAO CP
Hermann Pfeiffer	Senior Agricultural Officer	FAO CP
Roble Sabrie	Economist	FAO CP
Thomas Muenzel	Senior Economist	FAO CP
Derek Byerlee	Peer Reviewer	Consultant
Garry Smith	Peer Reviewer	FAO
Nathan Belete	Peer Reviewer	SASDA
Stefan Dercon	Peer Reviewer	Oxford Univ.

3. Bank funds expended to date on AGP preparation:

1. Bank resources: US\$ 410,000
2. Trust funds: US\$ 450,000
3. Total: US\$ 770,000

4. Estimated annual supervision costs:

1. Bank resources: US\$ 180,000
2. Trust funds: US\$ 180,000
3. Total: US\$ 360,000

AGP Supervision Strategy

5. The supervision strategy of the AGP is building on the institutions and mechanisms developed during its preparation as well as on the substantial experience and successes of supervision and implementation support provided by other programs in Ethiopia, most notably the PSNP and the SLMP, both of which are also implemented by the MoARD.
6. Guiding Principles for Supervision. The supervision and implementation support of the AGP will be guided by same principles as practiced by the PSNP:

- a. *Use of existing government systems and a harmonized and collaborative approach by DPs.* The supervision strategy for the AGP is aligned with existing government planning and budgeting systems, timelines and procedures. Building on the cooperation during AGP preparation, AGP DPs will use joint mechanisms for organizing missions, reviews and assessment.
 - b. *Supervision will be flexible and responsive.* Joint supervision and implementation support will be structured as a flexible process that is able to identify and respond quickly to implementation challenges, while also providing a mechanism for close collaboration and dialogue between the government, DPs, and other stakeholders.
 - c. *Ensure technical rigor.* To respond effectively to the demands of AGP implementation, joint supervision and implementation missions will comprise team members with appropriate technical skills and experience commensurate with AGP requirements.
 - d. *Genuine partnership.* Much of the success of the AGP will depend on the ability of stakeholders to collaborate effectively, and requires government and DPs to share information openly and regularly.
 - e. *Joint accountability.* Government, with the support of the DPs, is responsible for the successful implementation of the AGP. Both parties are jointly accountable to ensure regular dialogue on how to further strengthen AGP performance.
7. **Role of RED&FS SWG.** The AGP preparation process has been guided and supported—under the overall direction of MoARD leadership—by the AGP Technical Committee (TC). This AGP TC is a sub-group of the TC for Growth, one of the three pillars of the RED&FS SWG. The AGP TC—and the TC for Growth—has been chaired by the Director of Extension, MoARD, co-chaired by the World Bank Task Team Leader, and includes several other directors of MoARD and representatives from all participating DPs. The AGP TC will continue during implementation and provide a regular (bi-weekly) forum to discuss the implementation process of the AGP and any issues that might arise. The TC for Growth will ensure coordination with other agricultural development / growth initiatives; the RED&FS SWG, which meets at least every quarter, provides the forum to discuss any cross-cutting issues with the other RED&FS pillars—specifically, Disaster Risk Management and Food Security and Sustainable Land Management—as well as with other sectors through other Development Assistance Group (DAG).
8. **World Bank Coordination.** While the main coordination of the AGP at the federal level will be through the CU, the World Bank will ensure coordination within its own portfolio and provide some direct coordination with other AGP DPs. The World Bank Task Team Leader is and will continue to be based in Ethiopia.⁸⁸ In addition, the World Bank has recruited a full-time AGP Donor Coordinator, with financial support from the RED&FS Trust Fund.⁸⁹ Key task team members responsible for financial management, procurement, and safeguards are also based in the country office.

⁸⁸ The co-Task Team Leader is currently also based in Ethiopia.

⁸⁹ This Bank-executed MDTF supports the RED&FS SWG and donor coordination, including through coordination as well as analytical and knowledge activities.

9. **AGP Supervision.** The supervision strategy will use a number of instruments to review progress and respond to implementation issues, in particular:
- a. *Joint Review and Implementation Support (JRIS) Missions.* Semi-annual JRIS reviews will be conducted around April/May and September/October of each year to review overall AGP implementation performance and progress towards the achievement of the development objectives. In addition, technical reviews including on fiduciary aspects will be regularly carried out.
 - b. *Mid-term Review (MTR).* An MTR will be carried out mid-way in the implementation phase. The MTR will include a comprehensive review of the overall progress with implementation and achievement of AGP activities. The MTR will also serve as the forum for reviewing any design issues that may require adjustments to ensure the satisfactory achievement of the AGP's objectives.
 - c. *Other Complementary Activities and External Review.* Based on needs the World Bank and its DPs will initiate additional analytical, advisory, and knowledge-sharing activities as well as additional third-party reviews.

Annex 12: Documents in the File
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

1. Project Concept Note (PCN) and Minutes of PCN Meeting
2. Quality Enhancement Review (QER) package and Minutes of QER Meeting
3. List of AGP Woredas, and key selected commodities for each woreda cluster
4. Preliminary List of key AGP commodities for each region
5. Draft AGP PIM, including the following draft Annexes:
 - Annex I: Capacity Building and Training Manual
 - Annex II: ARDPLAC Guidelines
 - Annex III: Community-based Participatory Watershed Management Guideline
 - Annex VI: FTC Guidelines
 - Annex V: Participatory Extension Guidelines
 - Annex VI: Community-level Participatory Planning Guidelines
 - Annex VII: Scaling up Best Practices Guidelines
 - Annex VIII: Farmer Innovation Fund and Adaptive Research Guideline
 - Annex IX: SSI Guideline
 - Annex X: Irrigation Water Management Guidelines
 - Annex XI: Rural Roads Guideline
 - Annex XII: Guideline on Physical Markets
 - Annex XIII: FM Manual
 - Annex XIV: Procurement Manual
 - Annex XV: M&E and Learning Manual
 - Annex XVI: ESMF
 - Annex XVII: Administration Guideline
 - Annex XVIII: Detailed Costs
6. Social, Environment and Safeguard Documents:
 - a. Letters sent to riparian countries following procedures under OP/BP7.50
 - b. Social Assessment of the AGP
 - c. Environmental and Social Management Framework (ESMF) including Resettlement Action Framework (RAF)
7. Other background studies conducted:
 - a. Study on AGP area and commodity selection
 - b. Study on formal seeds systems
 - c. Design of potential AGP support to the seed sector (draft)
 - d. Study on forage systems
 - e. Study on farming systems analysis

- f. AGP market and agri-business (value-chain) study
 - g. Study on field testing of the community-level planning process
 - h. Assessment of small scale irrigation in selected AGP areas and menu of services
 - i. Institutional capacity and needs assessment of implementing agencies
 - j. Rapid baseline survey
 - k. Report on value chain strengthening as part of the AGP
 - l. Selection of key value chain commodities in Oromiya National Regional State
 - m. Value chain financing for producers and agribusinesses operating in rural areas under the AGP
8. Terms of References for various background studies ongoing or to be contracted
9. Economic and Financial Analysis Appendices
- a. Overview of AGP Woredas including number of kebeles and population
 - b. Financial crop, livestock and enterprise budgets
 - c. Economic benefits and costs
 - d. List of references
 - e. Overview of potential value-chain commodities to be supported under AGP

Annex 13: Statement of Loans and Credits
ETHIOPIA: AGRICULTURAL GROWTH PROJECT

Project ID	FY	Purpose	Original Amount in US\$ Millions					Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Orig.			Frm. Rev'd	
P113156	2009	ETHIOPIA GLOBAL FOOD CRISIS RESPONSE PRO	0.00	250.00	0.00	0.00	0.00	0.02	-18.63	0.00	
P106872	2009	ET-RSDP Stage IV APL (FY09)	0.00	245.00	0.00	0.00	0.00	263.02	0.00	0.00	
P106855	2009	ET-General Educ Quality Improv. (FY09)	0.00	50.00	0.00	0.00	0.00	51.62	-1.20	0.00	
P098132	2009	ET-Tourism Develop. Project SIL	0.00	35.00	0.00	0.00	0.00	37.44	0.00	0.00	
P103022	2009	ET-Protect. Basic Serv. Phase II (FY09)	0.00	540.00	0.00	0.00	0.00	324.77	53.23	0.00	
P096323	2008	ET-Tana & Beles Int. Wat Res Dev Project	0.00	45.00	0.00	0.00	0.00	39.28	2.44	0.00	
P101474	2008	ET-Urban Local Govt Development (FY08)	0.00	150.00	0.00	0.00	0.00	122.18	-4.57	0.00	
P101556	2008	ET-Elect. Access Rural II SIL (FY07)	0.00	130.00	0.00	0.00	0.00	132.72	68.54	0.00	
P106228	2008	ET- Ethiopia Nutrition SIL (FY08)	0.00	30.00	0.00	0.00	0.00	26.60	9.95	0.00	
P074011	2008	ET/Nile Basin Initiative:ET-SU Interconn	0.00	41.05	0.00	0.00	0.00	28.29	4.75	0.00	
P107139	2008	ET-Sustainable Land Mngt SIL (FY08)	0.00	20.00	0.00	0.00	0.00	18.47	2.76	0.00	
P108932	2008	ET-Pastoral Community Develpt II (FY08)	0.00	80.00	0.00	0.00	0.00	65.67	9.26	0.00	
P101473	2007	ET-Urban WSS SIL FY07)	0.00	100.00	0.00	0.00	0.00	89.16	18.21	0.00	
P098031	2007	ET-Multi-Sectoral HIV/AIDS II (FY07)	0.00	30.00	0.00	0.00	5.00	11.06	14.83	0.00	
P092353	2007	ET-Irrigation & Drainage SIL (FY07)	0.00	100.00	0.00	0.00	10.00	77.62	48.72	0.00	
P091077	2007	ET-APL3-RSDP Stage III Proj (FY07)	0.00	225.00	0.00	0.00	0.00	195.01	34.16	0.00	
P094704	2006	ET-Financial Sector Cap Bldg. Project	0.00	15.00	0.00	0.00	7.00	2.94	7.32	0.00	
P097271	2006	ET-Electricity Access (Rural) Expansion	0.00	133.40	0.00	0.00	0.00	101.98	90.45	0.00	
P079275	2006	ET- Cap. Building for Agric. Serv (FY06)	0.00	54.00	0.00	0.00	13.00	20.88	4.52	-4.69	
P074015	2006	ET-Protection of Basic Services (FY06)	0.00	430.00	0.00	0.00	0.00	5.21	-225.72	-10.72	
P082998	2005	ET-Road Sec Dev Prgm Ph 2 Supl 2 (FY05)	0.00	248.20	0.00	0.00	0.00	113.40	2.09	-13.34	
P078458	2005	ET-ICT Assisted Dev SIM (FY05)	0.00	25.00	0.00	0.00	10.00	3.85	12.33	1.73	
P050272	2005	ET-Priv Sec Dev CB (FY05)	0.00	24.00	0.00	0.00	7.00	8.75	9.83	3.92	
P074020	2004	ET-Pub Sec Cap Bldg Prj (FY04)	0.00	100.00	0.00	0.00	20.00	4.05	21.48	0.00	
P076735	2004	ET-Water Sply & Sanitation SIL (FY04)	0.00	100.00	0.00	0.00	13.00	24.13	25.09	0.00	
P049395	2003	ET-Energy Access SIL (FY03)	0.00	132.70	0.00	0.00	0.00	67.91	35.96	0.00	
P044613	2003	ET-RSDP APL1 (FY03)	0.00	126.80	0.00	0.00	0.00	2.78	-12.67	0.00	
P050383	2002	ET-Food Security SIL (FY02)	0.00	85.00	0.00	0.00	35.00	0.03	16.07	-13.85	
Total:			0.00	3,545.15	0.00	0.00	120.00	1,838.84	229.20	- 36.95	

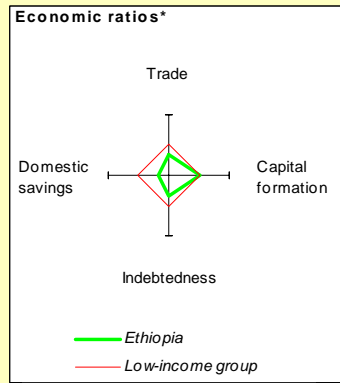
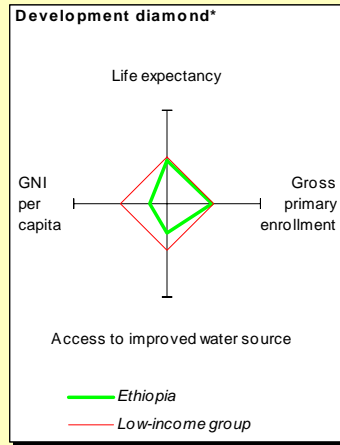
ETHIOPIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2009	Derban Midro Cement	55	-	-	-	-	-	-	-
	SGH (through holding)	-	10	-	-	-	-	-	-
	Total portfolio:	55.00	10.00	-	0.00	-	0.00	0.00	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Guarantee
2009	Access Leasing	-	1.0	-	-
2009	Ethio Cement	16.5	7.2	-	-
2010	GTFP United Bank	-	-	-	10
	Total pending commitment:	16.50	8.20	0.00	10.00

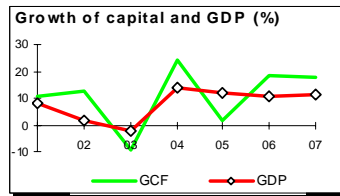
Annex 14: Country at a Glance

POVERTY and SOCIAL	Ethiopia	Sub-Saharan Africa	Low-income		
2007					
Population, mid-year (<i>millions</i>)	79.1	800	1296		
GNI per capita (<i>Atlas method, US\$</i>)	220	952	578		
GNI (<i>Atlas method, US\$ billions</i>)	17.6	762	749		
Average annual growth, 2001-07					
Population (%)	2.6	2.5	2.2		
Labor force (%)	2.9	2.6	2.7		
Most recent estimate (latest year available, 2001-07)					
Poverty (% of population below national poverty line)		
Urban population (% of total population)	17	36	32		
Life expectancy at birth (<i>years</i>)	52	51	57		
Infant mortality (<i>per 1,000 live births</i>)	77	94	85		
Child malnutrition (% of children under 5)	35	27	29		
Access to an improved water source (% of population)	42	58	68		
Literacy (% of population age 15+)	36	59	61		
Gross primary enrollment (% of school-age population)	91	94	94		
Male	97	99	100		
Female	85	88	89		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1987	1997	2006	2007	
GDP (<i>US\$ billions</i>)	10.4	8.9	15.2	19.4	
Gross capital formation/GDP	16.1	19.8	24.2	25.0	
Exports of goods and services/GDP	6.0	11.4	13.8	12.8	
Gross domestic savings/GDP	10.5	13.2	15	5.5	
Gross national savings/GDP	11.9	17.8	15.1	20.7	
Current account balance/GDP	-4.2	-2.2	-9.1	-4.5	
Interest payments/GDP	0.6	0.5	0.4	..	
Total debt/GDP	70.5	113.3	15.3	..	
Total debt service/exports	38.3	9.5	7.1	..	
Present value of debt/GDP	5.9	..	
Present value of debt/exports	38.7	..	
	1987-97	1997-07	2006	2007	2007-11
<i>(average annual growth)</i>					
GDP	2.0	6.2	10.9	11.1	..
GDP per capita	-13	3.3	8.0	8.4	..
Exports of goods and services	12	12.8	-0.2	10.2	..

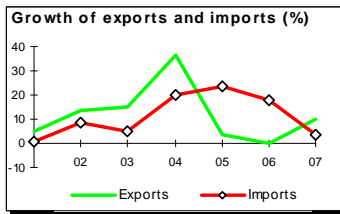


STRUCTURE of the ECONOMY

	1987	1997	2006	2007
<i>(% of GDP)</i>				
Agriculture	54.3	57.6	47.9	46.3
Industry	13.3	10.7	12.7	13.4
Manufacturing	5.5	5.0	4.5	5.1
Services	32.5	31.7	39.4	40.3
Household final consumption expenditure	79.0	78.8	86.4	83.9
General gov't final consumption expenditure	10.6	8.0	12.1	10.6
Imports of goods and services	11.7	17.9	36.5	32.2



	1987-97	1997-07	2006	2007
<i>(average annual growth)</i>				
Agriculture	3.1	4.3	10.9	9.4
Industry	-15	7.8	10.2	11.0
Manufacturing	-2.8	5.7	10.6	10.5
Services	1.5	7.7	12.9	13.9
Household final consumption expenditure	3.1	6.4	14.3	8.9
General gov't final consumption expenditure	-2.9	6.4	8.1	-3.8
Gross capital formation	-0.8	6.6	18.5	17.4
Imports of goods and services	0.7	10.4	18.0	3.8



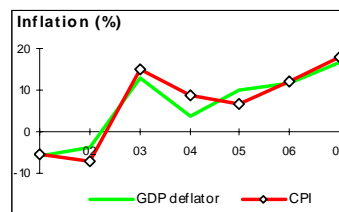
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

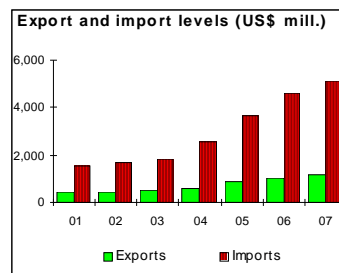
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices				
<i>(% change)</i>				
Consumer prices	-9.5	-6.4	12.3	17.8
Implicit GDP deflator	-6.1	4.5	11.6	16.8
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	14.5	15.4	16.7	16.3
Current budget balance	2.3	5.5	5.2	5.9
Overall surplus/deficit	-4.1	-1.3	-5.5	-4.9



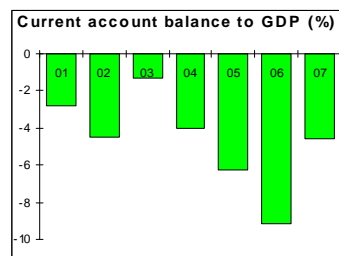
TRADE

	1987	1997	2006	2007
<i>(US\$ millions)</i>				
Total exports (fob)	391	599	1,000	1,185
Coffee	253	355	354	424
Pulses and oil seeds	9	23	248	258
Manufactures	74	75	94	105
Total imports (cif)	1,081	1,309	4,592	5,126
Food	194	17	333	259
Fuel and energy	109	147	861	875
Capital goods	466	528	1,552	2,020
Export price index (2000=100)	115	132	110	118
Import price index (2000=100)	99	87	139	151
Terms of trade (2000=100)	116	152	79	78



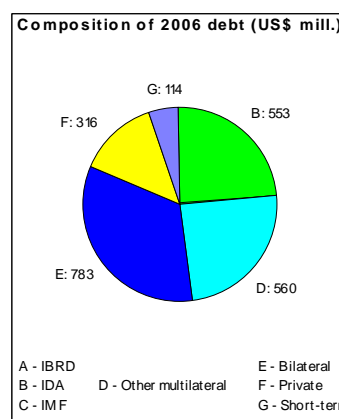
BALANCE of PAYMENTS

	1987	1997	2006	2007
<i>(US\$ millions)</i>				
Exports of goods and services	623	1,011	2,105	2,486
Imports of goods and services	1,217	1,589	5,548	6,266
Resource balance	-594	-578	-3,443	-3,780
Net income	-48	-97	-38	13
Net current transfers	204	484	2,095	2,885
Current account balance	-437	-191	-1,386	-882
Financing items (net)	416	-94	989	1,050
Changes in net reserves	21	285	397	-168
Memo:				
Reserves including gold (US\$ millions)	224	558	1,158	1,326
Conversion rate (DEC, local/US\$)	2.1	6.5	8.7	8.8



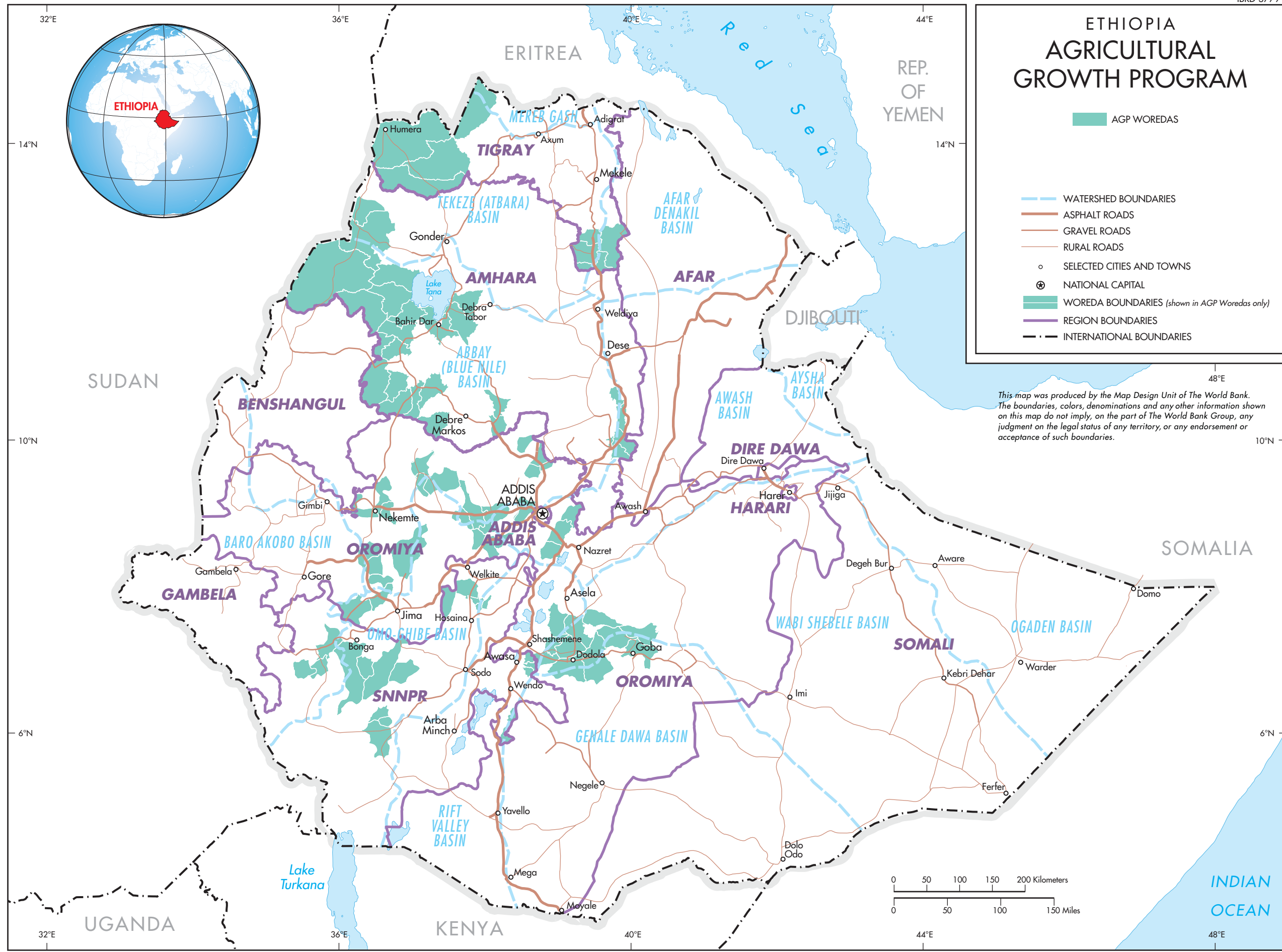
EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	7,364	10,077	2,326	..
IBRD	57	0	0	0
IDA	601	1,532	553	711
Total debt service	249	99	164	..
IBRD	13	0	0	0
IDA	9	26	39	6
Composition of net resource flows				
Official grants	346	357	5,015	..
Official creditors	422	104	306	..
Private creditors	72	23	-45	..
Foreign direct investment (net inflows)	-3	288	364	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	50	0	281	520
Disbursements	86	65	179	132
Principal repayments	13	15	23	0
Net flows	73	50	157	132
Interest payments	10	11	16	6
Net transfers	64	38	140	126



Note: This table was produced from the Development Economics LDB database.

9/24/08



ETHIOPIA AGRICULTURAL GROWTH PROGRAM

- AGP WOREDAS
- WATERSHED BOUNDARIES
- ASPHALT ROADS
- GRAVEL ROADS
- RURAL ROADS
- SELECTED CITIES AND TOWNS
- NATIONAL CAPITAL
- WOREDA BOUNDARIES (shown in AGP Woredas only)
- REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES

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