



1. Project Data:		Date Posted : 07/22/2003	
PROJ ID: P000753		Appraisal	Actual
Project Name: National Fertilizer Sector Project	Project Costs (US\$M)	230.3	413.1
Country: Ethiopia	Loan/Credit (US\$M)	120.2	131.6
Sector(s): Board: RDV - Petrochemicals and fertilizers (92%), Agricultural extension and research (5%), Central government administration (3%)	Cofinancing (US\$M)	89.8	202.4
L/C Number: C2740			
	Board Approval (FY)		96
Partners involved : African Development Bank , Italy, Netherlands, European Union, Japan, Sweden, Norway, Germany	Closing Date	12/30/2000	06/30/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
<p>"The project's objective is to help achieve accelerated and sustainable growth in agricultural production and productivity with a view to improving food security and reducing poverty " (SAR, p. 15). To be achieved by...</p> <p>(i) supporting policy reform to create an enabling environment for the growth of a competitive fertilizer sector;</p> <p>(ii) supporting institutional strengthening and human resource development;</p> <p>(iii) promoting increased, efficient and environmentally safe use of fertilizers by the largest possible number of farmers;</p> <p>(iv) addressing fertilizer supply-side constraints; and</p> <p>(v) promoting initiatives to maintain and improve the long-term fertility of the Ethiopian soils and ensuring environmental conservation</p>			
b. Components			
<p>(i) Fertilizer policy reform (No cost assigned);</p> <p>(ii) Capacity building (US\$8.6 million, 2 percent of actual project cost);</p> <p>(iii) Fertilizer demand and supply (US\$404.0 million, 98 percent of actual project cost---mainly to finance fertilizer imports); and</p> <p>(iv) Soil fertility management and environmental conservation (US\$0.5 million, under 1 percent of actual project cost).</p>			
c. Comments on Project Cost, Financing and Dates			
<p>On top of the initial credit of US\$ 120.2 million, IDA added a supplemental credit of US\$44.0 million, which was approved in July 2001, less than twelve months before closing . Of this combined commitment of US\$ 164.2 million, IDA disbursed US\$131.6 (The shortfall of US\$32.6 million at project close begs the question why the supplemental credit was authorized so near to closing). The (multiple) cofinanciers committed US\$89.8 million at appraisal, rising to US\$202.5 million by closing, all of this devoted to component (iii), specifically for financing the importation of fertilizer.</p>			
3. Achievement of Relevant Objectives:			

(i) (Achieved). All the policy issues identified at appraisal were resolved, on schedule ----prices were deregulated, fertilizer subsidies were eliminated, quality controls were promulgated, and state -owned enterprises' preferential access to fertilizer imports was removed .

(ii) (Partially achieved). The capacity of various organizations --among them the Ministry of Agriculture and affiliates--was enhanced and training targets were met, but the overall institutional development outcome was modest: a new set of market-distorting phenomena emerged during project implementation (see Section 5 below), thus hindering the establishment and growth of a competitive fertilizer market;

(iii) (Partially achieved). The area affected by increased fertilizer use was 1 million ha, compared to the 2.8 million ha forecast at appraisal; fertilizer consumption peaked at 298,000 tons in 2000 (21 percent more than the 1995 baseline), compared to the 360,000 tons that was forecast at appraisal .

(iv) (Not Achieved). Fertilizer importation took place as planned but there was no resolution of key institutional problems that will constrain long-term use of fertilizers by farmers: (a) the attempt to stimulate multi-channel fertilizer distribution was only partly effective; (b) the extension services' increased involvement in delivering inputs and credit detracted from their advisory work, hindering the objective of sustainable agricultural growth; and (c) the private-sector arm of the fertilizer industry became more, not less, concentrated, with a decrease in the number of private retailers .

(v) (Achieved). A local firm was established to produce organic fertilizer, a program to supply biofertilizer on commercial terms was successfully launched, soil testing laboratories for use by individual farmers were put in place; and monitoring of water for fertilizer residues was introduced .

4. Significant Outcomes/Impacts:

- Government remains committed to the price deregulation that was achieved under project auspices .
- Regional governments are committed to maintaining the 17 soil testing laboratories established under the project.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- At US\$0.4 billion (79 percent above the initial estimate), this was an extremely expensive way to provide a temporary boost to Ethiopian food security : food poverty decreased (from 47 percent malnourished in 1996 to 42 percent in 2000) but it is not clear to what extent this was attributable to the project; nor was the institutional framework sufficiently strengthened, making it likely that benefits will not be sustained .
- The attempt to develop a competitive input market --a key factor for sustained growth in fertilizer consumption--was unsuccessful. All credit sales of fertilizer are channeled through the cooperatives and the public extension program, putting private retailers at a disadvantage .
- Central and regional governments failed to challenge the rise of party -affiliated trading houses, undercutting the attempt to increase competition in the supply chain .
- A 35 percent depreciation in the local currency has pushed up the price that farmers must pay for fertilizer imports, while grain prices have fallen over the last two years : the combined effect of this is to severely reduce the demand for fertilizer .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Price deregulation is a necessary but not a sufficient condition for a competitive market to emerge; if state-regulated cooperatives and the government extension service supply fertilizer on soft credit terms (without a hard budget constraint), there will be little scope for private traders .
- Financing fertilizer imports through separately administered mechanisms of foreign exchange allocation introduces inefficiencies in the fertilizer industry : importers should be allowed to directly purchase foreign exchange at the time and in the amounts of their choosing, for the purpose of importing the quantities and product mix of their choosing .
- Agricultural intensification and increased use of fertilizer on a sustainable basis will require attention to management of risk and variability : in the absence of weather-based insurance, in the drought-prone areas of

Ethiopia input-intensive farming will remain highly risky, threatening to push farmers and financial institutions into debt.

- Involvement of agricultural extension agents in input distribution and credit administration impedes development of the private sector and compromises the advisory function of extension .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

A very candid ICR, which correctly identifies the failure to address institutional weaknesses as the primary factor in judging the project's development outcome .