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The World Bank

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PROJECT PAPER
ON A
PROPOSED GRANT
IN THE AMOUNT OF US\$ 50.0 MILLION
TO THE
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
FOR
AGRICULTURAL GROWTH PROJECT

December 28, 2011

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

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CURRENCY EQUIVALENTS

(Exchange Rate Effective December 5, 2011)

Currency Unit = Ethiopian Birr (ETB)
ETB 17.180 = US\$1
US\$ 1.557 = SDR 1

FISCAL YEAR

July 8 – July 7

ABBREVIATIONS AND ACRONYMS

| | |
|---------|---|
| AECID | Spanish Agency for International Development |
| AFTFM | Africa Region Financial Management Unit |
| ARDPLAC | Agricultural Rural Development Partners Linkages Advisory Council |
| AGP | Agricultural Growth Program/Project |
| ATA | Agricultural Transformation Agency |
| BMGF | Bill and Melinda Gates Foundation |
| BoA | Bureau of Agriculture |
| BoFED | Bureau of Finance and Economic Development |
| CAADP | Comprehensive Africa Agriculture Development Program |
| CAS | Country Assistance Strategy |
| CI | Core Indicator |
| CIDA | Canadian International Development Agency |
| CIG | Common Interest Group |
| CLPP | Community Level Participatory Planning |
| CPAR | Country Procurement Assessment Report |
| CSA | Central Statistical Authority |
| CSO | Civil Society Organization |
| CU | Coordination Unit |
| DA | Development Agent |
| DAG | Development Assistance Group |
| DP | Development Partner |
| EFY | Ethiopian Fiscal Year |
| EKN | Embassy of the Kingdom of the Netherlands |
| ESMF | Environment and Social Management Framework |
| ETB | Ethiopian Birr |
| FAO | Food and Agriculture Organization of the United Nations |
| FCA | Federal Cooperative Agency |
| 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 |
| GTP | Growth and Transformation Plan |
| IA | Implementing Agency |
| IBEX | Integrated Budget and Expenditure System |
| ICB | International Competitive Bidding |
| IDA | International Development Association |
| IFPRI | International Food Policy Research Institute |
| IFR | Interim Financial Report |
| JRIS | Joint Review and Implementation Support |
| KDC | <i>Kebele</i> Development Committee |
| M&E | Monitoring and Evaluation |
| MDG | Millennium Development Goal |
| MDTF | Multi-Donor Trust Fund |
| MFI | Micro Finance Institutions |
| MoA | Ministry of Agriculture |
| MoFED | Ministry of Finance and Economic Development |
| MoU | Memorandum of Understanding |
| ORAF | Operational Risk Assessment Framework |
| PAD | Project Appraisal Document |
| PDO | Project Development Objective |
| PIF | Policy and Investment Framework |
| PPPAA | Public Procurement and Property Administration Agency |
| RED&FS | Rural Economic Development and Food Security |
| SC | Steering Committee |
| SE | Supervising Entity |
| SNNPR | Southern Nations, Nationalities, and Peoples Region |
| SWG | Sector Working Group |
| TC | Technical Committee |
| UNDP | United Nations Development Programme |
| USAID | United States Agency for International Development |

| | |
|----------------------------|------------------------|
| Vice President: | Obiageli K. Ezekwesili |
| (Acting) Country Director: | Gregory Toulmin |
| Sector Director: | Jamal Saghir |
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ETHIOPIA
AGRICULTURAL GROWTH PROJECT
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ETHIOPIA

AGRICULTURAL GROWTH PROJECT

GRANT FINANCING DATA SHEET

| Basic Information | |
|--|--|
| Country Director: Gregory Toulmin Sector Manager/Director: Karen Brooks/Jamal Saghir Team Leader: Achim Fock Project ID: P127507 Expected Effectiveness Date: January 31, 2012 Lending Instrument: Specific Investment Loan Financing Type: Cofinancing | 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 Expected Closing Date: September 30, 2015 |
| Basic Information - Original Project | |
| Project ID: P113032 Project Name: Agricultural Growth Project Lending Instrument: Specific Investment Loan | Environmental category: B-Partial Assessment (not transferred) Expected Closing Date: September 30, 2015 Joint IFC: Joint Level: |
| Project Financing Data | |
| <input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: | |
| Financing Plan (US\$m) | |
| Source | Total Amount (US \$m) |

| | |
|---------------------|-------|
| Total Project Cost: | 327.1 |
| Of which: | |
| GAFSP | 50.0 |
| Financing: | |
| IDA Baseline: | 150.0 |
| Cofinancing: | |
| AECID | 1.4 |
| CIDA | 6.1 |
| EKN | 8.0 |
| UNDP | 2.4 |
| USAID | 81.4 |
| Recipient: | 6.2 |
| Communities: | 21.6 |

Client Information

Recipient: Federal Democratic Republic of Ethiopia
Responsible Agency: Ministry of Agriculture
P.O. Box. 623470
Telephone No.: +251116461971
Fax No.: +251116461971
Email: minagr3@ethionet.et

Estimated Disbursements (Bank FY/US\$m)

| FY | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------|------|------|------|------|------|
| Annual | 12.0 | 12.0 | 12.0 | 12.0 | 2.0 |
| Cumulative | 12.0 | 24.0 | 36.0 | 48.0 | 50.0 |

Project Development Objective (PDO) and Description

Project Development Objective:

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

The 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 (iii) AGP Management and Monitoring and Evaluation.

Component 1: Agricultural Production and Commercialization. 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.

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

Component 3: AGP Management and Monitoring and Evaluation. 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.

Safeguard and Exception to Policies

| | |
|---|--|
| Safeguard policies triggered: Environmental Assessment (OP/BP 4.01) Natural Habitats (OP/BP 4.04) Forests (OP/BP 4.36) Pest Management (OP 4.09) Physical Cultural Resources (OP/BP 4.11) Indigenous Peoples (OP/BP 4.10) Involuntary Resettlement (OP/BP 4.12) Safety of Dams (OP/BP 4.37) Projects on International Waters (OP/BP 7.50) Projects in Disputed Areas (OP/BP 7.60) | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Does the project require any exceptions from Bank policies? Have these been approved by Bank management? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No |

Conditions and Legal Covenants:

| Grant Agreement Reference | Description of Condition/Covenant | Date Due |
|---------------------------|-----------------------------------|----------|
|---------------------------|-----------------------------------|----------|

| | | |
|-----------------------------------|---|------------------------|
| Schedule 2 Section V. B. 1. | Disbursement is conditional on preparation of the appropriate Proposed Annual Work Plan by the Recipient furnished to the World Bank for its prior approval, and the World Bank notifying the Recipient through an Annual Confirmation of the appropriate eligible percentage of expenditures | before disbursement |
|-----------------------------------|---|------------------------|

I. Introduction

1. This Project Paper seeks the approval of the Regional Vice President to provide a grant in an amount of US\$50.0 million from the Global Agriculture and Food Security Program (GAFSP) to the Federal Democratic Republic of Ethiopia for co-financing the Agricultural Growth Project (AGP). The AGP is already supported by IDA (US\$150 million from Credit 47830 ET and Grant H6000 ET), as well as other Development Partners (DPs).

2. Ethiopia started the Comprehensive Africa Agriculture Development Program (CAADP) process as one of the first countries in Africa and signed the CAADP Compact on August 28, 2009. Since then, it has worked closely with its DPs in the preparation of the Policy and Investment Framework (PIF), a detailed, costed current and future investment plan to meet relevant Millennium Development Goals (MDGs), in particular, MDG 1. Ethiopia's PIF addresses national aspirations expressed in its poverty reduction and five-year development plan i.e., the five-year Growth and Transformation Plan (GTP), as well as in the CAADP Compact. The Goal of the PIF is to “*contribute to Ethiopia's achievement of middle income status by 2020*” and its Development Objective is to “*sustainably increase rural incomes and national food security*”.

3. Following the development of the PIF¹ the Government submitted a proposal for a grant from the GAFSP on September 29, 2010. The Ethiopia GAFSP proposal of US\$51.5 million was approved by the GAFSP Secretariat in November 2010. The Government has requested, and the GAFSP Secretariat has approved, that the World Bank be the supervising entity (SE) for the implementation of US\$50 million of the \$51.5 million approved funds. The supervising entity for the remaining US\$1.5 million is the Food and Agriculture Organization of the United Nations (FAO).

4. The proposed GAFSP financing will strengthen the AGP, which is a major component of the government's GTP. The AGP was designed as a scalable program, with an expected initial financing of about US\$281.2 million and a target area of 83 *woredas* (districts). The original financing gap was US\$50.0 million of this amount. Moreover, the Government plans to roll out the AGP to at least 120 additional *woredas* in the future. This GAFSP financing completes the filling of the financing gap of the AGP as originally designed. In addition, and given that additional resources were secured from bilateral donors since the submission of the GAFSP proposal,² the GAFSP financing allows for an intensification of selected AGP interventions and the involvement of a newly-created Government Agricultural Transformation Agency (ATA).

5. Key elements of the AGP are to: (a) increase agricultural productivity and production; (b) accelerate agricultural commercialization and agro-industrial development; (c) reduce degradation and improve productivity of natural resources; and (d) improve food and nutrition security and protect vulnerable households from natural disasters. The AGP focuses on small-

¹ The PIF was endorsed by the Government and all Development Partners at a CAADP Business Meeting held on December 7, 2010.

² Commitment from USAID has increased since the AGP design from about US\$51 million to about US\$86.4 million. In addition, both AECID and CIDA have already committed EUR1 million and CAD18 million, respectively for the AGP through the AGP MDTF. Consequently, total financing secured for the AGP – including the US\$50 million from the GAFSP to be supervised by the Bank – has increased from US\$281.2 million to US\$331.0 million.

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) in selected clusters of *woredas* that are relatively moisture - and food-secure and that, with AGP support, have considerable potential for agricultural growth. The AGP *woredas* are spread over the four regional states of Amhara, Oromiya, Southern Nations, Nationalities, and Peoples (SNNPR) and Tigray, and include about 2,108 *kebeles*.

6. The beneficiaries of the proposed GAFSP financing will be that of the AGP *woredas*, i.e. about 9.8 million people in an estimated 2 million households. Approximately 19 percent of the direct beneficiaries are expected to be women-headed farm households. Beneficiaries will benefit to various degrees. Indirect beneficiaries will include: (a) other farmers who will, following demonstration effects over time, adopt technologies and practices used by project-supported farmers; (b) rural agricultural laborers, for whom both demand for labor and real wages are expected to go up as farm-level productivity increases; and (c) the rural and urban poor who are net food buyers, as both relative food price declines and price swings are dampened.

II. Background and Rationale for GAFSP GRANT Financing

7. **Background.** The AGP aims to achieve a greater balance between targeted support to the poorest rural households and support to more dynamic households and enterprises in areas with relatively high potential. It focuses on scaling up investments and technologies with a proven track record in the country. The AGP also aims to identify market opportunities and to stimulate agro-enterprises and cooperatives to improve linkages with domestic, regional, and international markets. It furthermore expands the rural infrastructure, which will reduce the variability in agricultural production and will enable smallholders take advantage of new and more profitable opportunities. The AGP also promotes well-coordinated donor support for agriculture, more systematic monitoring and evaluation (M&E), and greater effectiveness in policy dialogue.

8. **Project Objectives and Approaches.** The project development objective (PDO) of the AGP is “to increase agricultural productivity and market access for key crop and livestock products in targeted *woredas* with increased participation of women and youth”. It is a flagship program in the Government’s overall poverty reduction and agricultural strategies as mentioned above. The AGP is designed to address some of the key constraints to agricultural growth in Ethiopia. It is one of the largest government programs particularly in relatively food secure/high potential areas. The design, with support from the World Bank, has applied common technical, financial, economic and institutional criteria as well as common approaches to community engagement.

9. **Project Area.** 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. 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*.

10. **Project Components.** The project has three components: (a) agricultural production and commercialization (US\$150.0 million, of which GAFSP US\$23.7), which aims 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; (b) small scale rural infrastructure development and management (US\$148.0 million, of which GAFSP US\$16.9 million), which aims 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; and (c) AGP management and monitoring and evaluation (US\$27.1 million, of which GAFSP US\$9.4 million), which aims to ensure that project activities are effectively managed, monitored and evaluated within the government program. See Revised Estimate of Project Costs and Financing Plan by Component and Sub-component in Annex 3 for more detail.

11. **Partnership Arrangements.** Encouraging partnership arrangements have already been established between the Government and DPs, as demonstrated by the active participation of key DPs, including the Canadian International Development Agency (CIDA), the Embassy of the Kingdom of the Netherlands (EKN), the Food and Agriculture Organization of the United Nations (FAO), the Spanish Agency for International Development (AECID), the United Nations Development Program (UNDP) and the United States Agency for International Development (USAID) in this government-led program. The Government and DPs have prepared the AGP jointly and are conducting Joint Review and Implementation Support (JRIS) missions. The government-chaired AGP Technical Committee (TC) has been meeting regularly (initially weekly, now bi-monthly) for the past 2 years. Evidence of effective partnerships has also been seen during the design stage through financial support from the UNDP AGP Trust Fund, the EKN-funded and World Bank-executed Rural Economic Development and Food Security (RED&FS) Trust Fund, and technical support from FAO. Effective partnerships continued during implementation as demonstrated by the financial contributions of DPs to the AGP, i.e., by USAID and UNDP AGP TF (both parallel funding) and the CIDA-, AECID-, and Netherlands-funded and World Bank-executed Multi Donor Trust Fund (MDTF).

12. **Project Performance.** The AGP was approved on September 30, 2010, declared effective on February 16, 2011 and launched on March 25, 2011. A number of activities have been undertaken following these steps, including:

- Recruitment or assignment of technical staff for the federal and regional AGP CUs and of AGP focal persons at zonal and woreda level and in other Implementing Agencies (IAs).
- Consultation, sensitization and awareness creation workshops as well as specialized training, including for procurement and financial management staff and on the Community Level Participatory Planning (CLPP) guideline.
- Development of a workplan and budget for Ethiopian Fiscal Year 2004 (starting July 7, 2011).
- Procurement of some goods and equipment and start of implementation activities, in particular under Component 1.

13. A first technical mission was also conducted from March 23 to May 7, 2011 and the first full JRIS conducted from June 13 to July 1, 2011. The missions, conducted by the Government and DPs, reviewed the set-up of institutions and project management systems as well as implementation progress. The missions noted that AGP has an encouraging start, with some weaknesses, especially in financial management. Both, progress towards achievement of the PDO and overall implementation progress (IP) is rated satisfactory (S).³ A detailed action plan has been agreed with the Government and has been largely implemented. For more details see Annex 6.

14. **Rationale for GAFSP Financing.** The rationale for the GAFSP Financing would be to finance activities that scale up a project's impact and development effectiveness. In particular, the Grant Financing would finance a gap that had already been identified during design and appraisal (see AGP PAD). In addition, the Grant Financing would finance additional support of certain project activities, with a somewhat modified design and through a new IA. This support, proposed to be implemented by the newly created federal-level ATA, would also scale up project impact and development effectiveness. The Bank supporting the AGP through this proposed financing is fully in line with the Bank's overall support for this program, including serving as a program that would harmonize investments into agricultural growth through a multi-donor engagement. The Bank has strong experience and expertise in agricultural development and as a result has received a specific request from the Government to take the lead role in the AGP and as the SE of US\$50 million GAFSP Grant Financing for the AGP.⁴

III. Proposed Change

15. **Results Framework.** No revision to the PDO is proposed, as it remains relevant for the proposed GAFSP financing. PDO indicators will also remain unchanged, showing percentage increase in agricultural yields of participating households (an index of crop and livestock products) and percentage increase in total marketed value of targeted crop and livestock products per participating household. In order to comply with the GAFSP M&E requirements, a number of indicators, most of which had been agreed to be tracked as part of the regular AGP progress reporting, would be tracked as GAFSP Core Indicators and reported on every six months. For details of the Results Framework and Monitoring Indicators, see Annex 1.

16. **Existing Implementation Arrangements.** Implementation of the AGP relies on existing Government structures, with the exception of parallel funding through UNDP and USAID. Since AGP provides federal support to selected areas of high agricultural potential with the ultimate aim of stimulating agricultural growth and triggering rural transformation in the country, overall responsibility for the AGP remains with the Federal Ministry of Agriculture (MoA). Other federal level agencies provide guidance and support to regions, spearhead most institutional capacity building activities and undertake monitoring, evaluation and communication activities. Implementation is decentralized with Regional, Zonal and Woreda Bureaus/Offices of

³ Based on the latest Financial Management implementation support mission in November 2011, the rating for financial management has been upgraded to MS.

⁴ A representative of the World Bank is serving as one of the two Co-chairs of the Government-Donor RED&FS SWG.

Agriculture in Amhara, Oromiya, SNNPR and Tigray assuming primary responsibility for execution of the program.⁵

17. **Agricultural Transformation Agency (ATA).** A proposed change being introduced with this financing is the inclusion of the ATA as an Implementing Agency (IA) of the AGP. This federal-level agency has been established only recently, i.e., after the finalization of the AGP design as well as after the Government's submission of the Ethiopia GAFSP proposal. However, given the ATA's mandate to support the MoA and other agencies in strategic areas that fall fully under the scope of the AGP, the Government requested and the Bank agreed to include the ATA as an IA in the AGP with defined specific areas of responsibilities. In particular, the ATA would work on three areas:

- Household irrigation (under Component 2.1). Coordinate and accelerate the scale-up and adoption of household-level irrigation programs, including manual and mechanized pump technologies, in AGP woredas based on comprehensive analysis of productivity and commercial potential, natural resource constraints and other farm-level incentives.
- Monitoring and Evaluation (under Component 3.2). Strengthen the monitoring and evaluation capacity of MoA to effectively collect, analyze and develop policy recommendations by leveraging the outputs and learning from the AGP woredas and supporting the MoA in scaling them to other woredas.
- Strategy and policy linkages (under Component 3.2). Strengthen the linkage between AGP monitoring and evaluation and policy recommendations in the areas of programmatic overlap between the ATA's mandate and the AGP (i.e., seeds, cooperatives, soil fertility, etc.) to ensure that the ATA's policy recommendations are informed by input from the AGP implementation. In addition, support implementation of government policy changes (possibly based on ATA's recommendation), if in line with AGP design.

See Annex 3 for more details on the modification of activities related to the ATA's involvement as IA in the AGP.

18. **Institutional Arrangements of the ATA.** The total amount being implemented by the ATA is estimated to be about US\$12.9 million, of which about US\$5.1 for household irrigation, about US\$5.5 for strategic and policy linkages, and about US\$2.3 for strengthening the monitoring and evaluation capacity of the MoA. Just as for any other IA, the ATA would prepare annual work plans and budget, submit them to the MoA for FSC approval, and report on progress on a regular basis. The ATA has established its financial management and procurement system. To date, ATA is staffed with a Senior Director for Finance and Administration and two senior accounting associates; the recruitment of an additional finance manager is under process; in addition, a procurement specialist has been contracted. The assessment shows that the staffing

⁵ AGP's federal implementing institutions include various directorates of the MoA, the National Artificial Insemination Center (NAIC); and, (for some discrete specialized activities) service providers such the FCA, the National Soil Testing Center (NSTC) and the Central Statistics Agency. Regional level AGP implementing agencies include various departments within the Bureaus of Agriculture (BoAs), Regional Soil Laboratories, Rural Roads Authorities of each region, Bureaus of Water and Energy, and Regional Livestock and Marketing Agencies where these are separate from the BoAs. Implementation of AGP at the regional level is also supported by relevant service providers and institutions collaborating with the contractors implementing activities funded by USAID. There are similar implementing agencies at the zonal and woreda levels.

level is adequate to handle the transactions of AGP. A technical AGP Focal Person has started his work. The Senior Director for Finance and Administration serves as the AGP focal person for financial management and for procurement. For more details on the ATA and the modification of the institutional set-up for the AGP see Annex 5 and Annex 7.

19. **Involvement of other stakeholders.** The involvement of various non-government stakeholders beyond farmers is crucial for the success of the AGP. Hence, the design includes various activities to support this multi-stakeholder engagement. In particular, farmer and other organizations, formal and informal, are at the core of the AGP design and receive strong support under Sub-Component 1.1.3 as well as under the infrastructure management activities of Component 2. Similarly, the involvement of the private sector (agro-processors, traders, etc. as well as farmer organizations) will be supported through the work on agricultural value chains (part of Sub-Component 1.3). This work is supported through the USAID, which has significantly increased its commitment from about US\$45 million for this sub-component at AGP appraisal to about US\$80 today. The support of the Agricultural Rural Development Partners Linkages Advisory Council (ARDPLAC) will foster linkages between various factors including civil society organizations (CSOs), private sector representatives, research, and others. In addition, the involvement of the ATA would further strengthen the involvement of CSOs and private sector. For instance, it is expected that the ATA would implement activities to promote household-based irrigation through contracting non-governmental organizations that would support private sector participants such as drillers or importers or producers of water pumps. Similarly, it is expected that the ATA through its strengthening of M&E as well as strategy and policy linkages would support identifying obstacles to further involvement of the private sector and other stakeholders, recommend policy changes accordingly, and help them being implemented in AGP areas.

20. **Grant Closing Date.** The trust fund, which is providing this co-financing of the AGP, would be used within the lifetime of the AGP. The proposed closing date is September 30, 2015, with an end-of-disbursement date for the GAFSP contribution of March 31, 2016.

21. **Disbursement Percentages.** Given that with the GAFSP financing of the AGP the World Bank would be responsible for a third source of AGP financing (IDA Grant and Credit, the MDTF, and the GAFSP TF), the disbursement percentages of the GAFSP grant and the other funding sources has to be determined. It is proposed that the expenditures to be financed from the GAFSP TF (and the IDA and MDTF recourse, see next paragraph) are to be defined as “Percentages to be determined annually, consistent with the Annual Work Plan and Budget”.

22. **Changes to the Existing AGP IDA and MDTF Financing.** The changes to the AGP introduced through this GAFSP financing are proposed to be also introduced to the existing IDA and MDTF financing of the AGP. Specifically, the proposed restructuring of the AGP IDA and AGP MDTF would (i) include the ATA as an IA; and (ii) revise the disbursement table (see previous paragraph). These changes will ensure that the new developments of the AGP are reflected in the IDA and MDTF Financing and ensure consistency across the three Bank-administered financing sources, i.e., IDA, MDTF and GAFSP TF.

23. **Changes to the Project Implementation Manual.** The PIM has been revised to reflect the changes introduced as per this Project Paper and to strengthen specific PIM documents as already agreed with the Government. Specifically, the revision of the PIM includes (i) the

reflection of the ATA as a new IAs, including in the main PIM document and the Financial Management Manual; and (ii) the reflection of the GAFSP indicators (see Annex 1 of this Project Paper) in the PIM M&E and Learning Manual. The revised PIM is expected to be adopted before the signing of the Grant Agreement for the proposed GAFSP Financing.

IV. Appraisal Summary

24. **Economic and Financial Analysis:** The economic analysis is done based primarily on an estimation of farm- and enterprise-level incremental benefits arising from the AGP. Accordingly, financial budgets prepared for representative crop, livestock, and agro-enterprises have been converted to economic budgets (valued at economic prices), and aggregated on the basis of the AGP outreach assumptions. On the other hand, the financial analysis is done by developing representative financial crop, livestock, and agro- enterprise models 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. The models then compared 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 (for details of the economic and financial analyses, see Annex 9 of the AGP PAD).

25. The economic internal rate of return (IRR) of the AGP is estimated at 19.9 percent with a net present value (NPV) of ETB1, 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 also summarized in Annex 9 of the AGP PAD.) 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. On the basis of the rather conservative assumptions, the AGP can be justified on economic grounds. It should, however, 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.

26. **Technical Analysis.** The Government 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 subprojects, as well as implementation support to be provided for agricultural production and commercialization and small-scale rural infrastructure development and management. The technical design of AGP is considered appropriate since it is based on lessons from similar operations implemented in Ethiopia, draws on government guidelines related to participatory extension and natural resource management, and incorporates essential features of best international practices. AGP’s design has also been informed by a number of analytical works, including rapid baseline survey; institutional capacity and needs assessment; farming systems (including forage system) analysis; potential agricultural growth areas in Ethiopia; assessment of the small scale irrigation schemes under the AGP; selection of key value chain commodities in

the four AGP implementing regions; formal seed system analysis; potential AGP support to the seed sector; and value chain financing for producers and agri-businesses operating in rural areas under the AGP. The final Project design reflects the technical recommendation of the need for a balanced ‘hardware’ and ‘software’ approach and the need to focus on marketing considerations.

27. **Fiduciary Analysis.** According to the procurement and financial management capacity assessment conducted, MoA’s capacity to implement previous Bank-assisted projects was found to be weak. It is, therefore, recommended and the Government has agreed to the recommendations that MoA requires technical assistance and training to strengthen its fiduciary capacity. AGP PAD Annexes 7 and 8 describe key financial management and procurement risks and provide action plans (measures) to mitigate them, respectively.

28. **Financial Management.** The financial management arrangements for the AGP, discussed in Annex 7 of the AGP Project Appraisal Document (PAD), follow the government’s Channel II fund flow mechanism. The AGP has its own financial management manual, which describes its budgeting, accounting, internal control, fund flow, financial reporting, and auditing aspects. The manual also outlines the relationship between all implementing agencies and how to account for community contributions to the project. The specific financial management arrangements outlined in the financial management manual cover pooled AGP funds—that is, those provided by the Government and DPs. The financial management manual has been revised to reflect the GAFSP grant. To take account of the new IA the Task Team has conducted a financial management assessment of the ATA at the end of October 2011 (see Annex 7). The financial management design for the project follows an approach of harmonizing all DP financing. The project will be carried out in accordance with the provisions “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011. The financial management risk for the project is rated **high** but with mitigation measures properly implemented, it is expected to be **substantial**.

29. In addition to the IDA grant and credit, co-financing arrangements have already been established between three bi-lateral financiers and the World Bank: CIDA, the AECID and the Kingdom of the Netherlands. The Bank and the Recipient have signed a Grant Agreement for this multi-donor trust fund (MDTF) over the amount of the first CIDA tranche and the increase in the grant amount through contributions by the AECID and the Netherlands is processed in parallel to the proposed GAFSP financing. The respective financing agreements are built on a common, fully costed program of investment. The Bank has already made 2 disbursements from the IDA funds and one from the MDTF based on Withdrawal Applications (WA) submitted along with six month work plan and budget, which were approved by the AGP Steering Committee. For details of fund flow and financial management issues, see Annex 5 of this Project Paper and Annex 7 of AGP PAD. The funds flow arrangements for the GAFSP Grant Financing will use the existing financial management arrangements for the current IDA Credit and Grant, as per the original project appraisal document, although there would be a new disbursement letter for the TF. A revised IFR format has been attached to the minutes of negotiations, reflecting the new co-financing reporting arrangements.

30. **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 of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants* (January 2011), *Guidelines:*

Selection and Employment of Consultants by World Bank Borrowers (January 2011), and the provisions stipulated in the Legal Agreement. The World Bank has reviewed the competitive bidding procedures of the Federal Government of Ethiopia. Based on this review, contracts that will be procured under National Competitive Bidding (NCB) may follow the Borrower's federal competitive procurement procedures, subject to provisions outlined in Annex 8 of the AGP PAD. The AGP Financing Agreement contains the most recent procurement Guidelines, which would also apply to this GAFSP funding for the AGP. Therefore under the GAFSP financing, the AGP procurement arrangements and the assessment of the risks will not change.

31. For the new IA introduced with this proposed GAFSP financing, i.e., the ATA, a procurement capacity assessment was carried out at the end of October 2011 (see Annex 8 of this Project Paper). It was noted that the Agency does not have as of yet staff which are experienced in public procurement and procurement in World Bank financed projects. Hence, experience in terms of procurement planning, procurement processing and contract administration is lacking in the ATA. While the ATA has signed a contract with a procurement officer with a high level of experience in public procurement and procurement in World Bank financed projects, given the overall high level of staff turnover, the risk rating for procurement carried out under this Agency is rated of "High".

32. **Environment.** There will be no change in the **Environmental Category** assigned to the AGP. The project Environmental Category is **B – Partial Assessment**, 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 subprojects approved at the woreda level after thorough environmental and social screening and vetting, among other reviews using the ESMF guideline developed for that purpose. The ESMF is currently being updated; this includes the Pest Management Guideline in the ESMF to provide additional details on the risks, potential impacts, and mitigation measures, as well as triggers for the preparation of site-specific Pest Management Plans. The MoA has also adopted a Small Dams Safety Guideline which would be used to guide the proper construction, operation and management of small dams. Finally, the AGP has adopted MoA'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.

33. **Social.** The social assessment conducted found that the currently proposed AGP components and activities are generally compatible with the needs of vulnerable social groups in the target locations researched. It has also identified vulnerable groups i.e. women and female headed households, youth, orphaned children, elderly people and others such as households whose productive assets are threatened by various external factors. The AGP will ensure consultation with the vulnerable groups identified and any other socially vulnerable groups that may be identified during planning and implementation process using the ESMF Guideline. This will ensure that their specific needs are adequately reflected in the planning process of community development plans. The ESMF of the AGP also includes a resettlement policy framework (RPF). While the project has not required land acquisition/involuntary resettlement to date, given the increasing possibility that some land acquisition activities may take place during project implementation, the RPF is being updated to include additional information about the

legal and institutional framework, eligibility, entitlements, and implementation arrangements. This updated RPF will be used for this project and other similar projects in the agricultural sector. All Community Action Plans will be assessed and screened based on the guidelines provided in the existing RPF and the Project Implementation Manual (PIM).

34. **Risks.** The project received a HIGH overall risk rating at appraisal. For details of the risks associated with the project, see the attached Operational Risk Assessment Framework (ORAF). Overall risk remains HIGH, with the following key issues:

- HIGH Stakeholder Risk, given recent reports alleging possible distortion of aid for political purposes.
- SUBSTANTIAL risk related to Implementing Agencies and their capacity, given in particular high staff turnover due to inadequate remuneration of staff and weaknesses in the fiduciary areas, safeguards and monitoring and evaluation.
- SUBSTANTIAL Project Design Risk, given limited space for private sector development and limited access to financial services as well as weather-related risks.

35. The Project is in full compliance with legal covenants under the original agreement for IDA financing. There are no exceptions to Bank policies.

Annex 1: Revised Results Framework and Monitoring Indicators

1. It is proposed that the Results Framework as agreed upon and presented in the PAD and PIM including the core indicators (CIs) of the number of direct and indirect beneficiaries (of which female) (see PAD Table A3.1 and this Annex 1, Table 1 below) remains unchanged. However, in order to comply with GAFSP requirements, a number of additional indicators would be defined as additional results indicators. The additional GAFSP indicators are summarized below. These are part of the regular progress reporting and would be submitted to the GAFSP Secretariat bi-annually. Note that the numbering of the GAFSP CIs chosen for the AGP is that of the GAFSP M&E Guidelines.

AGP Component 1

GAFSP CI 1. Number of collaborative research or extension sub-projects implemented (*defined as: number of FREGS; target is 3 per woreda for each of 80 AGP woredas*)

GAFSP CI 2. Number of client days of training to raise agricultural productivity provided to scientists, extension agents, agro-dealers, farmers, community members etc (disaggregated by gender) (*defined as training days to DAs, SMSs, and other government officials; target is training for 9,296 DAs, 1,162 woreda SMS and 226 zonal SMS, each average of 10 days; PLUS CLPP training for 2,108 kebeles with 30 participants per kebeles for 6 days; PLUS training for 10 members each from 18,500 CIGs for 10 days each*)

GAFSP CI 4. Number of farmers who have adopted the technology being promoted (*defined as number of farmers in CIGs supported by the AGP; target is 10 members each in 18,500 groups*)

GAFSP CI 5. Number of additional hectares which have adopted the technology being promoted (*defined as number of hectares of by farmers in CIGs supported by the AGP; target is an average of 0.1ha for each of 185,000 CIG member*)

GAFSP CI 14. Number of targeted clients who are members of an association including producer association, cooperative, water user association etc (disaggregated by gender) (*target is water users of 13,000 ha of SSI constructed/rehabilitated with average 0.2 ha of irrigated land per household; PLUS number of CIG members, i.e., 185,000*)

AGP Component 2

GAFSP CI 6. Area with new irrigation and drainage services (ha) (*target is total targeted area under AGP for irrigation and drainage, i.e., 18,000, but only half is for new services*)

GAFSP CI 7. Area with improved/rehabilitated irrigation and drainage services (ha) (*target is total targeted area under AGP for irrigation and drainage, i.e., 18,000, but only half is for improvement/rehabilitation*)

GAFSP CI 8. Number of water users provided with new/improved/rehabilitated irrigation and drainage services (disaggregated by gender) (*target is users of 18,000 ha of irrigation under AGP, assumption 0.2 ha per household*)

GAFSP CI 9. Number of operational water user associations (*target is 130 WUA*)

GAFSP CI 12. Km of roads constructed (disaggregated by all-weather or seasonal) (*target is 208 km, i.e., one quarter of overall road target including new and rehabilitated*)

GAFSP CI 13. Km of roads rehabilitated (disaggregated by all-weather or seasonal) (*target is 623 km, i.e., three quarter of overall road target including new and rehabilitated*)

GAFSP CI 15. Number of rural markets/market centers constructed (*target is 86*)

Target values and implementation arrangements are presented in Annex 2 Table 2.

Note that the GAFSP grant contribution to the achievement are about one fourth (23 percent) of the total funds contributing to the results indicators shown above, as the GAFSP financed US\$50 million out of an estimated US\$215.5 million of pooled funding.

All indicators, as far as appropriate, will be disaggregated by gender and youth.

Annex 1 Table 1: Results Framework as per AGP PAD

| 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 ⁶ (basket crops and livestock products). ⁷ <ul style="list-style-type: none"> - 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 ⁸ value of marketed agricultural products ⁹ (including livestock) per household (in ETB). ¹⁰ <ul style="list-style-type: none"> - 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.

⁶ The detailed impact assessment study disaggregates these figures by key agricultural commodities and region.

⁷ 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).

⁸ Deflated by consumer price index.

⁹ The detailed impact assessment study disaggregates these figures by key agricultural commodities and region.

¹⁰ 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). ¹¹ - 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 ¹² 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). ¹³ - 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 |

¹¹ 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.

¹² 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.

¹³ 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 ¹⁴ 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. ¹⁵ - 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). ¹⁶ - 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 |

¹⁴ To be defined for each type of sub-project by technical experts / evaluators in consultation with beneficiaries.

¹⁵ 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.

¹⁶ 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). ¹⁷ - Total - FHH - YHH | 0 0 0 | | | 80 80 80 | | 80 80 80 | FY3 and FY5 | Annual AGP Report | Implementing Agency |
| IO 2.3 Percent increase in area under irrigation (percent of cultivated land). ¹⁸ - Total - FHH - YHH | 4.5 4.5 2.2 | | | 5.1 5.1 2.5 | | 6.1 6.1 3.0 | 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). ¹⁹ - Total - FHH - YHH | n.a. n.a. n.a. | | | 15% 15% 15% | | 45% 45% 45% | FY3 and FY5 | Expert Assessment | federal CU |

¹⁷ Refers to agricultural water investments under the AGP.

¹⁸ 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.

¹⁹ 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). ²⁰ - 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). ²¹ - 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. ²² | 0 | | | 80 | | 80 | FY3 and FY5 | Annual AGP Report | Implementing Agency |

CI, direct and indirect beneficiaries, of which female: 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; about 50 percent of the population is female. 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, 50 percent of which is female. 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.

²⁰ Time to “nearest local marketplace” estimated by households sampled in the Rapid Baseline Survey.

²¹ The source of the baseline information is from the Rapid Baseline Survey, based on simple yes/no question on satisfaction with existing market infrastructure.

²² Refers to market-related investments under the AGP.

Annex 1 Table 2: GAFSP Core Indicators for the AGP

| GAFSP Core Indicators (CI) | Base-line (2010) | Target Values | | | | | Data Collection and Reporting | | |
|---|------------------|---------------|-----|-----|-----|-----|-------------------------------|-----------------------------|------------------------------------|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | Frequency and Reports | Data Collection Instruments | Responsibility for Data Collection |
| AGP Component 1 | | | | | | | | | |
| GAFSP CI 1. 1. Number of collaborative research or extension sub-projects implemented (<i>defined as: number of FREGS</i>) | 0 | 0 | 60 | 120 | 180 | 240 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 2 Number of client days of training to raise agricultural productivity provided to scientists, extension agents, agro-dealers, farmers, community members etc. (<i>defined as training days to DAs, SMSs, and other government officials</i>) | | | | | | | | | |
| - Total (in 1,000) | 0 | 135 | 270 | 405 | 540 | 670 | bi-annual | AGP Reporting Formats | MoA – FCU |
| - Women (in 1,000) | 0 | 40 | 80 | 120 | 160 | 200 | | | |
| GAFSP CI 4. Number of farmers who have adopted the technology being promoted (<i>defined as number of farmers in CIGs supported by the AGP</i>) | | | | | | | | | |
| - Total (in 1,000) | 0 | 37 | 74 | 111 | 148 | 185 | bi-annual | AGP Reporting Formats | MoA – FCU |
| - Women(in 1,000) | 0 | 11 | 22 | 33 | 44 | 55 | | | |

| GAFSP Core Indicators (CI) | Base-line (2010) | Target Values | | | | | Data Collection and Reporting | | |
|---|------------------|---------------|-------|-------|-------|-------|-------------------------------|-----------------------------|------------------------------------|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | Frequency and Reports | Data Collection Instruments | Responsibility for Data Collection |
| GAFSP CI 5. Number of additional hectares which have adopted the technology being promoted (<i>defined as number of hectares of by farmers in CIGs supported by the AGP</i>) (in 1,000 ha) | 0 | 3.7 | 7.4 | 11.1 | 14.8 | 18.5 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 14. Number of targeted clients who are members of an association including producer association, cooperative, water user association etc. (<i>including CIGs</i>) | | | | | | | | | |
| - Total | 0 | 50 | 100 | 150 | 200 | 250 | bi-annual | AGP Reporting Formats | MoA – FCU |
| - Women | 0 | 16 | 33 | 50 | 66 | 82 | | | |
| AGP Component 2 | | | | | | | | | |
| GAFSP CI 6. Area with new irrigation and drainage services (ha) | 0 | 0 | 2,000 | 5,000 | 8,000 | 9,000 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 7. Area with improved/rehabilitated irrigation and drainage services (ha) | 0 | 0 | 2,000 | 5,000 | 8,000 | 9,000 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP 8. Number of water users provided with new/improved/rehabilitated irrigation and drainage services (disaggregated by gender) | | | | | | | | | |
| - Total (in 1,000) | 0 | 0 | 14.4 | 36.1 | 57.8 | 65.0 | bi-annual | AGP Reporting Formats | MoA – FCU |
| - Women (in 1,000) | 0 | 0 | 2.9 | 7.2 | 11.6 | 13.0 | | | |

| GAFSP Core Indicators (CI) | Base-line (2010) | Target Values | | | | | Data Collection and Reporting | | |
|--|------------------|---------------|-----|-----|-----|-----|-------------------------------|-----------------------------|------------------------------------|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | Frequency and Reports | Data Collection Instruments | Responsibility for Data Collection |
| GAFSP CI 9. Number of operational water user associations | 0 | 0 | 28 | 72 | 111 | 130 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 12. Km of roads constructed (disaggregated by all-weather or seasonal) | 0 | 0 | 52 | 104 | 156 | 208 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 13. Km of roads rehabilitated (disaggregated by all-weather or seasonal) | 0 | 0 | 156 | 311 | 467 | 623 | bi-annual | AGP Reporting Formats | MoA – FCU |
| GAFSP CI 15. Number of rural markets/market centers constructed | 0 | 0 | 20 | 40 | 60 | 86 | bi-annual | AGP Reporting Formats | MoA – FCU |

Note: The target values are for the AGP as a whole even though GAFSP grant is only a portion of the total AGP financing.

Annex 2: Operational Risk Assessment Framework (ORAF)

| Project Development Objective(s) | |
|---|---|
| Increase agricultural productivity and market access for key crop and livestock Products in targeted woredas with increased participation of women and youth. | |
| PDO Level Results Indicators: | 1. Percentage increase in agricultural yield (basket crops and livestock products). 2. Percentage increase in total real value of marketed agricultural products (including livestock) per household (in ETB). |

| 1. Project Stakeholder Risks | | | | |
|---|---|-----------------------|------------------------|---------------------|
| 1.1 Stakeholder Risk | Rating | High | | |
| Description: Given recent reports alleging possible distortion of aid for political purposes, donors might decide to limit or withdraw altogether support to protect the reputation of their institution. Donors are under increasing pressure to demonstrate their funds are being utilized for the purposes intended and not for political purposes. Without credible, survey-based evidence of results they might decide to limit or postponed support. | Risk Management: AGP works to ensure local communities have access to AGP interventions. It does so by promoting a participatory planning, implementation and M&E system. It also promotes the establishment of platforms that ensure local multi-stakeholder engagement. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| 3. Implementing Agency (IA) Risks (including FM and PR risks) | | | | |
| 3. Overall Implementing Agency Risk | Rating | Substantial | | |
| Description: The Business Process Reengineering (BPR) that has been under implementation for the last five to six years has resulted in affecting the performance of the IAs at various levels, in particular by laying senior and experienced staff off and replacing them with young and inexperienced staff; disrupting the system by causing considerable delays in important decisions that affect the day-to-day functioning of the IAs and by deterring timely flow of information and resources. | Risk Management: AGP is planning to engage in a serious and continuous capacity (human, financial and physical) building activities aimed at improving the overall performance of the IA. Towards that end, it has designed a capacity building manual which will help guide the implementation of the capacity building plan. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |

| | | | | |
|--|--|-----------------------|------------------------|---------------------|
| 3.1 Capacity Risk | Rating | High | | |
| <p>Description:</p> <p>Despite the rigorous reform process (BPR) that has taken years, the MoA is still suffering from significant capacity limitation problems. Its implementation capacity is constrained so much so that it is difficult to get even simple information required, e.g., the exact number of DAs and/or properly function FTCs.</p> | <p>Risk Management:</p> <p>AGP is planning to engage in a serious and continuous capacity building activities aimed at improving the overall performance of the IA. Towards that end, it has designed a capacity building manual.</p> | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| <p>Description:</p> <p>The MoA in particular and other AGP implementing institutions in general are suffering from problems related to budgeting, accounting, internal control, fund flow, financial reporting, auditing and other FM related activities. They have problems in preparing financial reports timely and adequately, in undertaking (internal and external) auditing, and in carrying out other FM related activities in time and at the desired quality. When they do such activities, they often fall far short of the standard quality.</p> | <p>Risk Management:</p> <p>AGP has developed a FM Manual that guides the proper implementation of fiduciary measures; and provided for assignment of FM specialists as well as training. The design of AGP includes the involvement of internal auditors at all levels as well to review the project activities. It has also been agreed to have semi-annual external audit arrangement, which will help in early detection of internal control weaknesses and also facilitate for timely delivery of audit reports.</p> | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| <p>Description:</p> <p>The MoA in particular and AGP implementing institutions in general are significantly constrained by weak planning capacity, oversight, staffing, and related problems of procurement. Delays in procurement due to insufficient capacity are also common and severely affect the performance of the program in general and the attainment of the program objectives in particular.</p> | <p>Risk Management:</p> <p>AGP has developed a Procurement Manual (PM) to guide implementation of procurement activities; and provides for assignment of procurement specialists and training.</p> | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| 3.2 Governance Risk | Rating | Substantial | | |
| <p>Description:</p> <p>MoA has an anti corruption officer who has the responsibility of acting on suspected incidents of fraud, waste, or misuse of project resources or property. However, the officer does not have the required facility and nor does s/he have the capacity to handle fraud and corruption issues sufficiently and adequately. An internal control system exists in the MoA and other AGP implementing institutions, but is not functioning adequately.</p> | <p>Risk Management:</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> | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |

| 4. Project Risks | | | | |
|---|---|--------------------------|---------------------------|---------------------|
| 4.1 Design Risk | Rating | Substantial | | |
| Description: Communities have limited opportunity to develop markets in agribusiness due to limited access to finance, or lack of knowledge of agribusiness opportunities. | Risk Management: 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. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: Not Yet Due |
| Description: Exogenous shocks and climate variability reduce return on investments and limit participation by poor, risk-averse households. | Risk Management: Investment in sustainable land management, small-scale infrastructure, and market access will substantially reduce risk and increase participation. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: Not Yet Due |
| 4.2 Social and Environmental Risk | Rating | Moderate | | |
| Description: 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. However, despite the fact that individual sub-projects are not yet identified, AGP will not undertake any sub-projects that will displace people. It would, however, support small-scale infrastructure i.e. irrigation and market infrastructures that might affect land holdings of individual farmers and hence social and environmental risks. It will also no doubt intensify the use of key modern chemical inputs particularly fertilizer, and pesticides and herbicides. | Risk Management: The AGP has developed an ESMF framework that includes a resettlement policy framework and other mitigation instruments for the safeguard policies triggered. These documents are being updated to include more detailed guidance on managing environmental and social risks, based on the project experience to date. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| 4.3 Program and Donor Risk | Rating | Low | | |
| Description: The Bank has leveraged considerable support from other donors during the design stage of the AGP, and it is expected that this experience will allow for smooth engagement moving forward. Some risks remain with respect to the coordination of the AGP with other government- and donor-funded programs. | Risk Management: The Bank aims to simplify and streamline its Trust Fund Administration process to ensure a timelier and smoother transfer of funds. Government, Bank and other donors will coordinate closely, in particular through the RED&FS (DAG) mechanism. | | | |
| | Resp: Bank | Stage: Implementation | Due Date: Continuously | Status: In Progress |

| | | | | |
|---|--|--------------------------|---------------------------|---------------------|
| 4.4 Delivery Quality Risk | Rating | Moderate | | |
| Description: Data quality issues, including weak sector Management Information Systems and no independent verification mechanisms, present a difficulty in measuring the Program's results. | Risk Management: AGP plans to institutionalized effective impact evaluation and M&E system that would ensure program objectives are achieved. | | | |
| | Resp: Client | Stage: Implementation | Due Date: Continuously | Status: In Progress |
| 7. Overall Risk Following Review | | | | |
| 7.2 Implementation Risk Rating | Rating | Substantial | | |
| Comments: Risks are overall Substantial, mainly because of the overall high risks related to stakeholders and country risk, as well as substantial risk related to the Implementing Agencies and their capacity and to design, especially involvement of the private and financial sector in agricultural value chains and weather-related shocks. | | | | |

Annex 3: Detailed Description of Modified Project Activities

1. This Annex describes the modification to three sub-components of the AGP as originally designed and approved by the Bank's Board (see PAD). All three modifications are being introduced through the introduction of the newly established Ethiopian Agricultural Transformation Agency (ATA) as additional Implementing Agency. The modifications have been agreed in principle between the Bank and the Government (both MoA and ATA). They are fully aligned with the Government's strategic directions contained in the "Growth and Transformation Plan 2010/11 – 2014/15" (GTP) and the "Agricultural Sector Policy and Investment Framework" (PIF), and the Bank's CAS. The total costs of the activities being implemented by the ATA amount to about US\$12.9 million. The balance of the \$50 million in additional financing will be implemented as planned in the original design by the MoA.

Modification 1: Strengthening the activities to promote household-/micro-irrigation under Component 2.1 Small-scale Agricultural Water Development and Management (*about US\$5.1 million implemented by ATA*).

2. Coordinate and accelerate the scale-up and adoption of household-level irrigation programs, including manual and mechanized pump technologies, in AGP woredas based on comprehensive analysis of productivity and commercial potential, natural resource constraints and other farm-level incentives. An objective of the AGP is to promote 5,000 hectare of household- or micro-irrigation through encouraging and facilitating farmer's uptake of appropriate technology, primarily manual and mechanized pumping technologies that typically irrigate up to four hectares through available groundwater. Adoption and management of these technologies is frequently at the household-level and should be commercially driven.

3. Technical capacity to promote household-level irrigation is severely limited and coordination efforts are lacking. Given these limitations, the ATA would support implementation activities with all partners and build this capacity, in particular the responsible, long-term implementing partner – in this case the MoA and the Bureaus of Agriculture (BoAs). Specific activities²³ would include: (a) water resource mapping; (b) strengthening the technology supply chain; (c) technical support and capacity building in the MoA and BoAs and other partners; and (d) strategic guidance and coordination.

Modification 2: Support Agricultural Sector Monitoring and Evaluation Capacity under Component 3.2 Monitoring and Evaluation (*about US\$2.3 million implemented by ATA*).

4. Strengthen the monitoring and evaluation capacity of MoA to effectively collect, analyze and develop policy recommendations by leveraging the outputs and learning from the AGP woredas and supporting the MoA in scaling them to other woredas. The efforts will be initially undertaken solely in AGP woredas but will also strengthen MoA's national M&E capacity and performance.

²³ Based on analytic work initiated in mid-2010 with support of the Bill and Melinda Gates Foundation (BMGF) and the Government of Korea, scoping work was completed to indicate the potential and implementation options for these technologies to tap groundwater for small-scale producers.

5. The AGP activity implemented by the ATA will be an integrated part of the work of the ATA Directorate for M&E and Knowledge Management. It will build on earlier and ongoing activities supported by DPs, in particular those supported by the FAO. Specific activities include: (a) strengthening data collection; (b) training and capacity development; and (c) technical support.

Modification 3: Strengthening strategy and policy linkages under Component 3.2 Monitoring and Evaluation (*about US\$5.5 million implemented by ATA*).

6. Strengthen the linkage between the ATA and AGP in the areas of programmatic overlap (i.e., seeds, cooperatives, soil fertility, etc.) to ensure that the ATA's policy recommendations are informed by input from the AGP woredas and such that ATA policy recommendations that are approved by the government in these areas of programmatic overlap are implemented quickly in the AGP woredas.

7. Specific focus areas of the ATA that are addressed by the AGP include: (a) improving the seeds system; (b) soil health and fertility management; (c) the cooperative sector; (d) agricultural input and output markets; and (e) research and extension. Consistent with its mandate, the ATA will support strategy development, implementation and coordination. Activities to achieve the objective under this ATA-implemented activity include (a) workshops and knowledge sharing; (b) capacity building; (c) technical support for implementation; and (d) support for testing catalytic innovations.

Annex 4: Revised Estimate of Project Costs and Financing Plan by Component and Sub-component (US\$ million)

| | IDA | MDTF | GAFSP | USAID, UNDP | GoE and Benefi- ciaries | Total |
|---|--------------|------------|-------------|----------------|-------------------------------|--------------|
| 1. Agricultural Production and Commercialization | | | | | | |
| 1.1 Institutional Strengthening and Development | 20 | 4.3 | 10.2 | - | | 38.3 |
| 1.2 Scaling up Best Practices | 10 | 5.2 | 12.5 | - | | 30.6 |
| 1.3 Market & Agri-business Development | | 0.4 | 0.9 | 75.0 | | 81.1 |
| 1.3.1 Agribusinesses along value chains | | - | - | 70.0 | | 75.0 |
| 1.3.2 Supply systems of key inputs | | 0.4 | 0.9 | 5.0 | | 10.7 |
| (i) Increasing seed availability | | - | - | 5.0 | | 5.0 |
| (ii) Livestock breed improvement | | | 0.9 | | | 5.7 |
| | 35.5 | 9.9 | 23.7 | 75.0 | 5.9 | 150.0 |
| 2. Small Scale Rural Infrastructure Development and Management | | | | | | |
| 1.1 Agricultural Water Development and Management | 70 | | | | 1 | 92.3 |
| 1.2 Market Infrastructure Development and Management | 30 | | | | | 55.7 |
| | 105.4 | 6.2 | 16.9 | - | 20.8 | 148.0 |
| 3. AGP Management and Monitoring and Evaluation | | | | | | |
| 1.1 AGP Management | | | | | | 11.9 |
| 1.2 Monitoring and Evaluation | | | | | | 15.2 |
| 3.2.1 Impact Evaluation | | | | | | 2.2 |
| 3.2.2 Input / Output Monitoring | | | | | | 2.3 |
| 3.2.3 Participatory M&E, Internal Learning, etc. | | | | | | 10.5 |
| | 7.1 | 0.7 | 9.4 | 8.8 | 1.1 | 27.1 |
| 4. Unallocated | | | | | | |
| Total Costs | 150. | 16. | 50 | 8. | 27 | 327. |

Notes:

Column “GAFSP” excludes US\$1.5 million of GAFSP funding for FAO technical assistance.

Column “MDTF” includes commitments from AECID and the Netherlands processed in parallel to this proposed GAFSP financing; it includes the CIDA contributions already committed to the Recipient (about US\$6.1m), not CIDA’s entire commitment (about US\$18.0m).

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 4 Attachment: Disbursement Table (as per Annex of the draft Grant Agreement)

| Category | Amount of the Grant Allocated (expressed in USD) | Percentage of Expenditures to be Financed (inclusive of Taxes) |
|---|---|--|
| (1) Goods, works, non-consulting services, consultants' services, and Incremental Operating Costs for Part 1 of the Project | 23,700,000 | Such percentage as the World Bank shall determine and communicate to the Recipient in its Annual Confirmation for the relevant Annual Work Plan and Budget |
| (2) Goods, works, non-consulting services, consultants' services, and Incremental Operating Costs for Part 2 of the Project | 16,900,000 | |
| (3) Goods, works, non-consulting services, consultants' services, and Incremental Operating Costs for Part 3 of the Project | 9,400,000 | |
| TOTAL AMOUNT | 50,000,000 | |

Annex 5: Revised Implementation Arrangements and Support through the Agricultural Transformation Agency (ATA)

1. The Agricultural Transformation Agency (ATA) was created by a federal regulation in December 2010 and is a public agency that reports to a governing council chaired by the Prime Minister, with the Minister of Agriculture as the deputy chairperson. The ATA's mandate is to support MoA and its federal and regional partners in areas of strategy formulation, support to implementation, and coordination across high priority agricultural value-chains and systems identified in consultation with the governing council. It does this by:

- Leading problem solving efforts to facilitate identification of solutions to address systemic bottlenecks in priority areas.
- Supporting implementation of identified solutions in high priority areas by providing project management, capability building, technical assistance and knowledge sharing to implementing partners.
- Enhancing linkages and coordination among agricultural stakeholders in high priority areas to reach agreed upon milestones and objectives that transform the agriculture sector and lead to middle income country status.

Initial value-chains will focus on maize, wheat, livestock, teff, oil seeds, pulses and rice. Systems include seeds, soil health and fertility management, cooperatives, input & output markets and research & extension. Across these systems and value-chains program areas, the ATA is integrating a robust focus on the environment and natural resource management, gender, and technology access and adoption. The ATA is headquartered in Addis Ababa with possible regional offices to be launched in 2012.

2. The ATA has already become member of the AGP Technical Committee (TC) and will also become member of the federal Steering Committee (TC). Similarly, once the ATA has established offices at the regional level, these would be represented in the regional-level AGP management structure. As is the case for all other IAs, the ATA will prepare detailed annual work plans and budget, discuss these with the AGP TC, and through the federal Coordination Unit (CU) submit these to the federal SC for its approval. Procurement plans, based on the annual workplans, would be submitted to the World Bank for approval. The ATA will also report on its progress through quarterly, semi-annual and annual reports – through the federal CU—to the federal SC and including the World Bank.

3. The ATA's approach to support AGP implementation is consistent with the ATA's mandate. The proposed activities (see Annex 3) are priority areas identified by the ATA's governing council. Day-to-day implementation of the ATA activities for the AGP would be overseen by the head of the ATA. The ATA has recruited a technical focal person (FP) responsible for implementing the AGP activities and overall coordination and the Senior Director for Finance and Administration serves as the AGP Focal Person for financial management and one for procurement. ATA's directorate for natural resource management and for M&E and knowledge management would also be involved in the implementation.

Annex 6: Financial Management

1. The World Bank's financial management team conducted a financial management assessment of MoA, i.e., the implementing entity of the AGP. The assessment also was done for selected BoAs, Bureaus of Water Resources, Regional Roads Authorities, as well as livestock and marketing agencies; zonal-level Offices of Agriculture and Offices of Finance and Economic Development; and Woreda Offices of Finance and Economic Development. The objective of the financial management assessment was to determine whether the financial management arrangements: (a) are capable to ensure that funds are used for the intended purposes in an efficient and economical way; (b) are capable of correctly and completely recording all transactions and balances relating to the project; (c) facilitate the preparation of regular, accurate, reliable and timely financial statements; (d) safeguard the project's entity assets; and (e) are subject to auditing arrangements acceptable to the Bank. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010 and AFTFM Financial Management Assessment and Risk Rating Principles.

2. The main financial management arrangements of the AGP as indicated in Annex 7 of the PAD will remain unchanged for the proposed GAFSP financing, with the exception of the addition of the ATA as new IA and the actions that need to be taken as per the findings of the first AGP Joint Review and Implementation Support (JRIS) which was conducted in June 2011.

3. *Budgeting arrangements.* There is no change to the current budgetary arrangements as a result of the proposed GAFSP financing. The budgeting process will follow the Government budget procedures and will be proclaimed annually. ATA's annual work plan and budget will also be incorporated in the total budget of AGP to be prepared by the CU. The budget will also be monitored through comparison of budgeted and actual expenditure for all implementing entities at all levels. The current budget for Fiscal Year 2011/2012 will be updated with the activities and workplan to be implemented by the ATA before the implementation of these activities can begin.

4. *Accounting arrangements.* The accounting arrangement as indicated in Annex 7 of the PAD will remain unchanged, except for the changes that arise with the ATA as a new IA. Accordingly, the financial management manual has been revised to incorporate ATA in the budget, accounting, fund flow, auditing and reporting sections. Based on the assessment conducted on the ATA, the agency has an acceptable accounting structure and system in place and adequate staffing for the finance department. The detail assessment can be found on Annex 7. The finance staff of the ATA will also participate in trainings organized by the MoA and supported by the World Bank.

5. *Internal Control Systems.* The internal control arrangements of the AGP as indicated in Annex 7 of the PAD will remain unchanged. The financial management manual needs to be updated to incorporate the budget, fund flow, reporting, chart of accounts and auditing arrangements of the ATA as another IA of the AGP.

6. *Internal Auditing.* The internal audit departments at MoA, BoAs, Bureaus of Water Resources, Regional Roads Authorities and woredas will include the AGP in their annual work plan and review the transactions as indicated in Annex 7 of the PAD. The newly established ATA has an internal audit unit, which will incorporate the AGP activities in its work plan.

7. *Funds flow and disbursement arrangements.* Funds flow into the project and within the project among various institutions is depicted in Figure A7.1 in Annex 7 of the PAD. IDA funds will be deposited into a separate designated account opened at the national Bank of Ethiopia (NBE). Funds from other partners operating under MDTF arrangement will be deposited into a separate foreign currency denominated designated account to be opened at the NBE. Due to the introduction of the financing from GAFSP and the new implementing entity ATA, the fund flow arrangement will exhibit the following changes:

1. Since GAFSP financing is not to be pooled with other funds, MoA will also open another designated account at NBE for funds of GAFSP financing. Funds from the three separate accounts (IDA, MDTF and GAFSP) will be further transferred into pooled ETB local-currency account to be held by the MoA. From the pooled local-currency account, the MoA will transfer funds to separate local-currency accounts already opened by the four regions.²⁴
2. Funds will flow to regional implementers and Woredas based on their annual work plan as indicated in Annex 7 of the PAD. Actual expenditures and bank balances at these locations will be periodically reported to MoA, who would aggregate these and include in quarterly interim financial reports submitted to the Bank for purposes of monitoring. Any unspent balances at these locations at the closing of the project will be refunded to the Bank or fully accounted for.
3. ATA will open a separate foreign currency and a separate local currency account to receive funds from MoA. The basis of disbursement to ATA will be the same as for all project implementing agencies, i.e. annual work plans and budgets as approved by the federal steering committee and the World Bank. ATA, as other implementing agencies, will need to report to MoA with the proper documentation on the utilization of any advances made during a previous period (quarter of Ethiopian Fiscal Year (EFY)), and on requirements for eligible expenditures in the next succeeding periods (two quarters of EFY), which would be the basis for further disbursements to ATA. MoA would be the responsible body for validating and authorizing these payments based on the agreed work plan and budget.

4. *Financial reporting arrangements.* The project will continue its current arrangements in respect to financial reports and will prepare quarterly un-audited IFRs for the project (by combining the additional financing funds with the existing project) in the current form and content, which will be submitted to the World Bank within 60 days after the end of the quarter to which they relate. The existing format of the IFR remains the same and will show separately the disclosure of the funds received from and expenditures attributed to various financing sources (i.e., IDA, MDTF, and GAFSP financing), following the co-financing proportions documented in the Annual Cofinancing Confirmation letter.

²⁴ Co-financing managed separately from the non-pooled resources may require a separate account for their own purpose according to their own procedures. The Recipient would need to transparently provide the Bank with access to the reports on the financial management of these special accounts as well (through the statement on sources and uses of funds, etc.), to the extent that such bilateral donor financing is being provided for the same kinds of eligible expenditures that are financed under the Bank-administered IDA Credit/Grant, MDTF Grant, and GAFSP TF Grant (all Bank-administered sources of funds).

5. *External auditing arrangements.* The current Audit arrangements as agreed in the PAD will continue for the project. The GAFSP co-financing including the funds received by ATA will be incorporated in the semi-annual as well as annual audit of the project, which will be led by the MoA. The audited financial statements will be submitted to the Bank within 6 months after the end of each fiscal year along with the management letter. The Audit terms-of-reference agreed for AGP will be used; it includes a specific assertion by the auditors on the accuracy of IFRs that have been used for documenting disbursements. It was noted in the recent JRIS that external auditors were not recruited within 2 months of project effectiveness as indicated in the financing agreement.

6. *Financial Management Action Plan.* Based on the first JRIS, the financial management of the project was rated as Moderately Unsatisfactory mainly due to non compliance of financial covenants (such as recruitment of financial management specialists and external auditors on timely manner) and the accounting system which allows for capturing data not being fully in place. Based on the recent implementation support mission for financial management, it was noted that recruitment of all required positions has been completed after the JRIS. Moreover, a training of accountants, which included training by the World Bank's Financial Management Specialist and training in Peachtree software, did take place in mid-September 2011. Based on the detail assessment made in November 2011, the financial management rating was upgraded to Moderately Satisfactory (MS). An Action Plan has been prepared and agreed to further strengthen the financial management system of the AGP. It is documented in the latest implementation support report.

7. *Supervision plan.* The overall residual risk rating for the AGP is substantial. Hence, the AGP will have financial management supervision on a quarterly basis for the first two years the project's life. Supervision will be done twice a year thereafter. Supervision will include field visits and desk reviews of financial reports, documents and audit reports.

8. *Legal covenants.* The legal covenants as they relate to financial management of the original agreement apply to this co financing.

Annex 7: Financial Management Assessment Report of the Agricultural Transformation Agency (ATA)

I. Background

1. This financial management assessment was conducted in accordance with the Financial Management Practices Manual issued by the Financial Management Sector Board on November 3, 2005. In addition, this assessment is in compliance with the financial management manual for the World Bank financed investment operations that became effective on March 1, 2010 and AFTFM financial management Assessment and Risk Rating Principles. The objective of the assessment is to determine whether the implementing entity has acceptable financial management arrangements to ensure that: (i) funds are used only for the intended purposes in an efficient and economical way; (ii) the preparation of accurate, reliable and timely periodic financial reports; and (iii) safeguard the entities' assets. As part of the financial management assessment, the team visited the ATA.

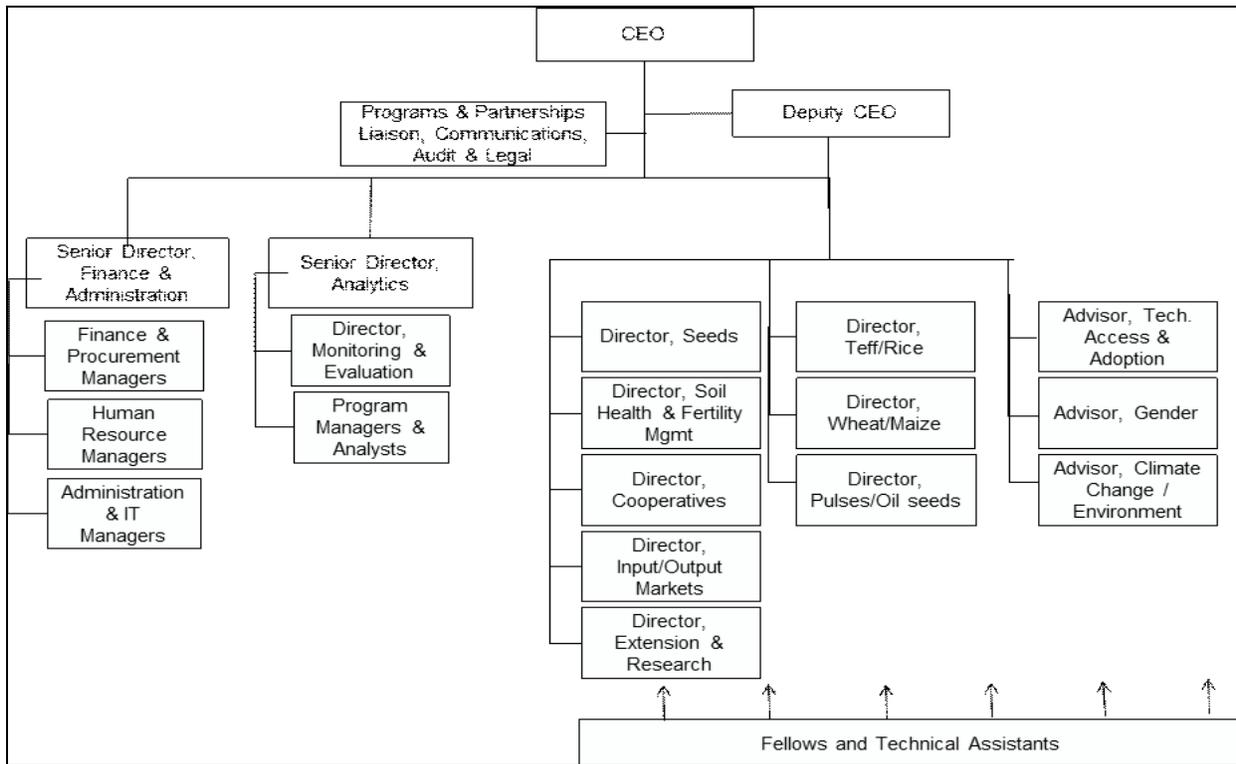
II. Organizational Background: See Annex 5 of this Project Paper.

III. Financial Management Institutional Arrangements.

2. The ATA has already become member of the AGP Technical Committee (TC) and will also become member of the federal Steering Committee (SC). Similarly, once the ATA has established offices at the regional level, these would be represented in the regional-level AGP management structure. As is the case for all other IAs, the ATA will prepare detailed annual work plans and budget, discuss these with the AGP TC, and through the federal CU submit these to the federal SC for its approval. Procurement plans, based on the annual work plans, would be submitted to the World Bank for approval. The ATA will also report on its progress through quarterly, semi-annual and annual reports – through the federal CU–to the federal SC and including the World Bank.

3. ATA's approach to support AGP implementation is consistent with the ATA's mandate. The proposed activities (see Annex 3 of this Project Paper) are priority areas identified by the ATA's governing council. Day-to-day implementation of the ATA activities for the AGP would be overseen by the head of the ATA. The ATA has recruited a technical FP responsible for implementing the AGA activities. The Senior Director for Financial Management and Administration serves as the AGP FP for financial management and procurement. ATA's directorate for natural resource management and for M&E and knowledge management would also be involved in the implementation.

Organizational structure: The organizational structure of the ATA is depicted below.



IV. Budgeting

4. **Budget for ATA.** The ATA will prepare annual work plan and budget on a yearly basis taking into consideration the funds that it will receive from Government and other DPs. Once regional agencies are also established, a bottom – up approach of budget preparation will be used. Most of the funds for the ATA are expected to be from donor partners such as IFPRI, Nike Foundation (USAID grant), UNDP (BMGF grant), and the World Bank through the AGP. The budget that is expected from government funds are mainly for operating costs and salary of local staff.

5. The timing of budget planning processes for the Agency is consistent with the government budget period. Once the prepared budget is approved by the Agricultural Transformation Council and donor partners, the final budget will be submitted to the Ministry of Finance and Economic Development (MoFED) and proclaimed at the federal level under the name of MoA.

6. **Budget for AGP.** The budget preparation for AGP activities will follow almost the same pattern except that the annual work plan and budget for AGP activities will be submitted to MoA and the Federal steering committee for approval. Since AGP is a federal project, the consolidated budget for AGP, which includes ATA activities, will be proclaimed in the name of the MoA. The Agency budgets shall be broken down to quarterly, annual, year-to-date and cumulative analysis as needed. Budget items shall be mapped with the General ledger accounts to facilitate comparison between budget and actual. The comparison will be made on quarterly basis to equip management with better and timely management decision tool.

V. Staffing

7. The ATA is currently staffed with a finance manager, two senior accounting associates and one cashier. The Senior Director, Finance and Administration is the overall responsible person for the financial management, administration and human resource functions of the Agency. The staff of the finance units were found to be well qualified and experienced. The senior accountants have a back ground in fund accounting. They are very well versed with government accounting procedures as well as donors. They are not yet trained in Bank procedures and policies. Training needs to be conducted once the AGP fund is approved for the ATA.

8. The ATA has developed its own salary scale for the local staff and submitted its salary scale proposal to the Prime Minister's office. Currently, the proposed salary structure is being reviewed by the Civil Service Ministry, and until approval is obtained local employees are hired on contract basis following the proposed salary scale. The international staff and consultants including Directors and Advisors are seconded to the Agency through different intermediary institutions such as UNDP and IFPRI using donors' fund. The AGP fund will not be used for salaries of ATA permanent or contract employees unless they are exclusively hired for AGP implementation.

VI. Accounting

9. The Government's accounting policies and procedures will be used for accounting for the funds to be received from Government fund. Starting from July 2002, the Ethiopian government has introduced a double entry modified cash basis of accounting. This will be used by the ATA. Integrated Budget and Expenditure (IBEX) accounting system is used for recurrent and capital budgets in the normal government system. Once ATA's salary scale is approved by the Ministry of civil services, MOFED will allow the ATA to use IBEX to record transactions for the government fund activities. The ATA is in the process of contracting the accounting software called "Microsoft Solomon Dynamics" to maintain the accounting records of donors as needed. The software is very flexible and capable of producing reports as desired. The demonstration for the software has already been done by the service provider and it is expected that it will be installed and staff trained by the end of January 2012. The ATA will retain its finance documents and present the same to donors and auditors up on request.

10. **Financial Management Manual.** The ATA has developed its own financial management manual which covers all the main areas such as budgeting accounting, fund flow, internal control, reporting and external audit. The manual has annexes of relevant formats and the chart of account. The chart of account mainly takes the government's account categorization and is able to give expenditure reports by donor, component and sub-component. For consistency purposes, the MoA will share the reporting format of the AGP with the ATA.

11. **Formats.** The ATA has available for use formats such as Payment Vouchers, Goods Receiving Notes, Store Issue Vouchers, etc. for donor funded projects. For government fund activities, government's own formats will be used.

VII. Internal Control and Internal Auditing

12. **Internal Control.** Internal control comprises the whole system of control, financial or otherwise, established by management in order to: (i) carry out the project activities in an orderly

and efficient manner; (ii) ensure adherence to policies and procedures; (iii) ensure maintenance of complete and accurate accounting records; and (iv) safeguard the assets of the project. Regular government systems and procedures would be followed, including those relating to authorization, recording and custody controls. As indicated above, the ATA has its own developed financial management manual. We noted that there are satisfactory internal controls in place to ensure that AGP funds are to be used for the intended purposes. There is satisfactory level of segregation of duties and approval and authorization regulations are clearly laid out. Monthly bank reconciliations are conducted and surprise Cash-on-hand counts will be made frequently by the accountant or other responsible officials.

13. There will be a fixed asset register at the Agency with the asset identification number and location information. Since the agency is still in the process of procuring fixed assets, the register is at the initial stage. The fixed asset register will separately show the assets procured by AGP funds.

14. **Internal Audit.** The ATA has an internal audit department in its structure that will be directly accountable to the Chief Executing Officer of the ATA. An internal auditor has been recruited. The auditor will conduct internal audit reviews as per the annual work plan to be prepared by the department. AGP activities will be incorporated in the annual work plan of the auditor.

VIII. Funds Flow and Disbursement Arrangements

15. Under Channel 2 arrangements, the ATA will be one of the recipients of AGP fund through the MoA. A memorandum of understanding will be signed between the ATA and the MoA. Accordingly the ATA will open a separate foreign currency account and a local currency account to receive fund from the MoA. The accounting transactions of the Bank account for AGP will be monitored through a separate ledger account for AGP.

16. The ATA, as per its annual work plan and budget as approved yearly, will request release of funds from the MoA on quarterly basis. Subsequent advances will only be made to ATA upon submission of quarterly Interim Financial Reports to the MoA based on the reporting formats to be presented by the AGP CU in the MoA.

IX. Financial Reporting Arrangements

17. Financial reports for AGP are designed to provide high-quality, timely information on project performance to project management, IDA, DPs, and other relevant stakeholders. The ATA, being one of the federal levels implementing agency of AGP, is responsible to produce quarterly reports to MoA within 30 days from the end of the quarter. It is the conclusion of this assessment that the ATA is capable of producing the required reports in a timely manner.

X. Auditing

18. The AGP will be audited annually by an external auditor that is acceptable to the Bank. The audit terms of reference has already been agreed with the MoA. As one of the implementing entities of AGP, the ATA will be audited annually by the AGP auditor. The ATA will be responsible for taking corrective action on weaknesses noted in the agency on the audit report

under the leadership of the MoA. The ATA has the responsibility to present its documents to external auditors as well as donor partners upon request.

Annex 8: Assessment of the Procurement Capacity of the Agricultural Transformation Agency (ATA)

1. The World Bank's Country Office Procurement Specialist conducted a procurement capacity assessment of the Agricultural Transformation Agency (ATA), which is a nascent entity in all aspects including procurement. The procurement assessment of this new IA of the Project was intended to include a review of the following aspects which relate to procurement: accountability for procurement decisions in the implementing agency; internal manuals and clarity of the procurement process; record keeping and document management systems; staffing; procurement planning; bidding documents, shortlisting, and evaluation criteria; advertisement, pre-bid conference and bid/proposal submission; evaluation and award of contract; review of procurement decisions and resolution of complaints; contract management and administration; and procurement oversight.
2. The ATA is a federal-level government organization which receives funds from government treasury as well as from financing agencies for specific project implementation activities as well as capacity building efforts. A procurement unit is in the process of formation under the Directorate for Finance, Procurement and Administration. A procurement specialist is recruited and it is reported that the selected procurement officer has signed an agreement with the Agency. The procurement officer has ample experience in public procurement and in procurement under Bank financed projects.
3. Thus far the ATA has not executed its own procurement and procurement activities of the agency are by and large executed by the UNDP which is supporting the establishment of the Agency. However, upon the establishment of the procurement unit of the Agency, it is expected to carry out its procurement activities in two ways. For funding which is received from Government treasury they have to follow Federal Government's Procurement Directive which is issued by Public Procurement and Property Administration Agency (PPPAA). For funds which are received from other multilateral and bilateral financing organization they shall use the procurement procedures as per the requirements of the respective financing organizations.
4. The ATA has not carried out procurement activities thus far and its procurement unit is only under formation with the recruitment of one procurement specialist who has adequate experience in public procurement and Bank financed projects. Hence it was not possible to carry out an assessment of the procurement capacity of the Agency through the parameters outlined in Paragraph 2. Although there are encouraging efforts at all levels to recruit procurement staff and introduce public procurement procedures in ATA, lack of experience in public procurement and procurement under donor financed projects in the Agency and high level of staff turnover which is common in public organizations in Ethiopia, the procurement risk of the proposed program in Agricultural Transformation Agency is rated "**HIGH**".
5. **Institutional Set-up of ATA:** The Agency is expected to carry out the implementation of specific AGP activities at Regional and Woreda level. The Agency's office at central level would be responsible for providing the necessary technical support for the planning and implementation of the AGP components. However, how ATA's institutional setup would be organized for the decentralized implementation of the Program lacks clarity at this stage. The more decentralized implementation arrangements coupled with the general public procurement performance gaps in the country and high procurement staff turnover in all public organizations may undermine

program procurement implementation unless specific capacity building actions are designed and implemented at early stages of the Program. Moreover, considering the lack of experience of the Agency in terms of the parameters outlined above, the agencies procurement processes, organizations and staffing, quality of internal administrative practices including internal control mechanisms, staff capacity and procurement records need to be instituted and streamlined. ATA should also have in place internal controls which would enforce the compliance with basic principles of transparency, fairness and economy which are the underlying principles of the Bank's procurement procedures.

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

| No. | Major findings/issues | Actions proposed | Responsibility | Targeted date |
|-----|---|--|----------------|---|
| 1. | Institutional set-up of ATA not clear for decentralized implementation of AGP | Institutional set-up of ATA for decentralized implementation of AGP clarified and procurement arrangements at decentralized level clarified | ATA | Within the first six months of project implementation |
| 2. | Lack of experience in public procurement and Bank financed projects | The ATA will recruit an additional procurement proficient personnel and shall have an appropriate procurement system in place | ATA | Within the first six months of project implementation |
| 3. | Lack of procurement supporting and control systems. | ATA should have in place internal control mechanism | ATA | Within the first six months of project implementation |
| 4. | Lack of staff skilled in procurement management | The procurement and related staff should undertake basic procurement training. | ATA/MoA/WB | Within the first six months of project implementation |
| 5. | Lack of written procedural manuals/systems in place including code of ethics | The existing PIM of AGP will be revised and updated, as necessary, to clarify the procedures and lay out the steps for conducting efficient procurement to assist and guide the procurement specialists of AGP | MoA | Within the first six months of project implementation |