



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
SECOND AGRICULTURAL GROWTH PROJECT
APPROVED ON MARCH 31, 2015
TO
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Agriculture and Food Global Practice
Eastern and Southern Africa Region

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ABBREVIATIONS AND ACRONYMS

FAO	Food and Agriculture Organization of the United Nations
GAFSP	Global Agriculture and Food Security Program
IDA	International Development Association
MDTF	Multi-Donor Trust Fund
MHI	Micro-irrigation and Household Irrigation
MoA	Ministry of Agriculture
MoTRI	Ministry of Trade and Regional Integration
RVP	Regional Vice-President
SSI	Small-Scale Irrigation
USAID	United States International Development Agency



BASIC DATA

Product Information

Project ID P148591	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 31-Mar-2015	Current Closing Date 15-Jun-2023

Organizations

Borrower Federal Democratic Republic of Ethiopia	Responsible Agency
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Project Development Objective (PDO)

Original PDO

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

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-D7220	15-Sep-2020	07-Oct-2020	04-Nov-2020	15-Jun-2023	80.00	59.79	14.48
IDA-56050	31-Mar-2015	07-May-2015	31-Aug-2015	15-Jun-2023	350.00	315.93	28.91
TF-B5971	26-Jun-2021	03-Jul-2021	25-Aug-2021	15-Jun-2023	5.00	5.00	0
TF-A7195	18-Jun-2018	18-Jun-2018	18-Jun-2018	30-Sep-2020	27.00	27.00	0
TF-A4876	29-Jan-2018	29-Jan-2018	29-Jan-2018	15-Jun-2023	73.60	73.60	0



Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. This paper seeks Regional Vice-President (RVP) approval of a Level 2 restructuring for a closing date extension of the Second Agricultural Growth Project in Ethiopia. The project was approved by the Board of Executive Directors on January 22, 2015, with a closing date of October 10, 2020. The project has received a total financing in the amount of US\$535.6 million. This includes the US\$350 million original IDA credit, an additional financing in the amount of US\$80 million IDA Grant, a co-financing grant in the amount of US\$73.60 from the Ethiopia Second Agricultural Growth Project Multi-Donor Trust Fund (MDTF), US\$27 million from the Global Agriculture and Food Security Program (GAFSP), and US\$5 million Additional Financing from GAFSP. In addition, several development partners committed parallel financing to the Project. The Food and Agriculture Organization (FAO) of the United Nations committed US\$3 million to provide technical assistance. The United States Agency for International Development (USAID) provided US\$60 million through the Feed the Future program to support value chain development, and Global Affairs Canada created a US\$11.9 million Capacity Development Support Facility to build the capacity of implementation agencies of the Project. Similarly, the Spanish Agency for International Development Cooperation provided a grant in the amount of US\$6 million directly to the Government of Ethiopia to support project implementation.

Overall Project Status

2. The project is rated Satisfactory on progress towards achieving the Project Development Objective and Moderately Satisfactory on Implementation Progress. The project is organized around the following technical components: Component 1 (Agricultural Public Support Services), Component 2 (Agricultural Research), Component 3 (Small Scale Irrigation Schemes), and Component 4 (Agricultural Marketing and Value Chains).

3. **Component 1 (Agricultural Public Support Services)** is rated Satisfactory. The project has either achieved or exceeded most of the targets for component 1. During the proposed extension period, component 1 activities will be implemented only in the Tigray region. The project stopped implementation in Tigray region after conflict started in 2020 and implementation is set to resume following the signing of peace agreement in November 2022.

4. **Component 2 (Agricultural Research)** is rated Satisfactory. All targets for component 2 have been exceeded. No activities are planned under component 2 during the proposed extension period.

5. **Component 3 (Small Scale Irrigation Schemes)** is rated Moderately Satisfactory. Project implementation during the proposed extension period will focus on this component.

6. The SSI component was designed to promote the development, expansion, improvement, upgrading, and rehabilitation of SSI subprojects. The Project set a target to provide 53,116 hectares (ha) of land with irrigation water and related services by the closing date. The overall target is comprised of three different types of irrigation investments: (i) new schemes (15,239 ha); rehabilitation and upgrading/improvement of existing schemes (31,185 ha); micro-irrigation and household irrigation systems (6,693 ha).



7. Over the course of implementation, the Project has initiated construction for sub-projects covering 62,749 ha, which is more than the Project's overall target. Out of the works initiated, the Project has completed the construction of sub-projects covering 54,981 ha (about 104 percent of the project target). The completed works have benefited 157,938 households, including 35,523 female headed households. Although the component appears to have achieved its overall targets, a breakdown of performance by type of SSI works reveals challenges on new schemes. The Project has completed about 57 percent of the target for new schemes and construction of the rest of the subprojects is ongoing with works at various stages of completion. Better performance is reported on the relatively less demanding categories of SSI, namely the upgrading and rehabilitation of existing schemes and micro-irrigation and household irrigation (MHI) systems. In particular, the Project has completed 90 percent of the target for upgrading and rehabilitation of existing schemes and exceeded the target for MHI systems (with 273 percent completion).

8. Currently, there are 57 sub-projects under construction covering 6,507 ha, most of which is comprised of new schemes. The main challenge leading to slow progress on these subprojects is the unavailability and price escalation of cement. A few of the subprojects are also affected by other issues such as insecurity, weak contract management, and delays in decision making. The shortage of cement started about four years ago and has been affecting the entire construction industry. Stakeholders in the industry attribute the shortage to a variety of issues, including supply-demand gap and weak governance of cement supply chains.

9. Over the past 5 months, the Implementing Agency, Ministry of Agriculture (MoA), has made remarkable progress to secure the cement required to complete the subprojects under construction:

- Following the agreements reached during the December 2022 technical mission, the MoA engaged with the Ministry of Trade and Regional Integration (MoTRI) to initiate a major policy reform that has significantly improved access to cement in the markets. The inter-ministry engagements led to the MoTRI issuing a new directive that allows cement producers to sell the commodity to any distributor or buyer of their choice. The previous policy environment granted the regional and city governments the sole authority to choose distributors for cement companies in their territories.
- While the above-mentioned policy change has tremendously improved availability of cement in the market, the market prices are significantly higher than the price implied in the contracts between the Project and the private sector contractors engaged to develop SSI infrastructure. Those contracts are fixed price contracts and cannot be adjusted. It means that the contractors have to access cement at near factory prices to complete the subprojects.
- The MoA has made significant efforts to enable contractors to access cement at factory prices. Working closely with MoTRI, the Project has been included in the priority list of government projects that should be allocated cement out of the 30 percent quota of national production reserved for government programs. Subsequently, the MoTRI engaged with the Ethiopia Cement Association and the association sent letters to 9 major cement factories requesting the factories to provide project contractors access to cement at factory prices.
- The MoA has also undertaken measures to mitigate the risk of cement meant for the Project being diverted by the contractors to other purposes. The MoA together with the 9 cement factories and regional implementing agencies have established protocols to guide access to cement from factories and delivery at project construction sites. The factories have received a list of eligible contractors, disaggregated by regions and woredas, with the estimated amount of cement each contractor needs to purchase in order to complete construction of their subprojects. The Project's supervising engineers will verify that the contractors have transported the cement to the construction sites. Furthermore, a daily consumption log register will be used to track cement usage and verify that it has not been diverted to other purposes.
- Considering that the priority list includes several government programs (in addition to the Project), the MoA recently sent a fact-finding government team to the 9 cement companies to assess the timeline within which the



Project would be able to access cement. Based on the report of the fact-finding team, the MoA expects the Project contractors to access the required quantities of cement by the end of November 2023.

10. These measures have already led to significant progress over the past 5 months. During this period, the Project has completed the construction of 31 subprojects, providing about 1,831 ha with irrigation water and related services. Physical progress on ongoing sub-projects has improved from about 60 percent to nearly 80 percent. The project has been able to access nearly 50 percent of the cement that was needed on December 15, 2022 – reducing cement requirements from 23,673 tons to 12,745 tons. The proposed extension would not only provide sufficient time to complete the construction and handover of the remaining subprojects under construction, but also enable the Project to support recovery of agriculture production in the Tigray region.

11. **Component 4 (Agricultural Marketing and Value Chains)** is rated Moderately Satisfactory. All targets for component 4 have been achieved or exceeded except the following: strengthening of liquid nitrogen production plants (82 percent achievement), establishing and strengthening Common Interest Groups (65 percent achievement), and construction of warehouses (78 percent completion). No activities are planned under component 4 during the proposed extension period.

12. The project has achieved important results during the implementation period:

- It has provided more than 2.5 million farmers (including about 930,000 female farmers) various agricultural support services and inputs such as agricultural extension services, improved technologies and management practices, irrigation water and related services, and access to market infrastructure.
- About 1.6 million farmers have adopted the 525 improved agricultural technologies promoted by the Project, including climate smart, nutrition sensitive, and gender responsive technologies.
- Under the research component, the Project has generated 45,464 tons of improved breeder and pre-basic seeds that have been multiplied into certified and quality declared seeds for cultivation by farmers across the country.
- The Small-Scale Irrigation (SSI) component has provided 53,712 ha of land with irrigation water and related services. About 128,088 households have benefitted from access to irrigation, including 25,747 female headed households. About 69 percent of the water user associations established by the project are functional and effectively managing irrigation and drainage infrastructure.
- The Project's impact on agricultural yields is measured at mid-term and end of project. While the field survey to collect end of project data is yet to be launched, the mid-term survey conducted in 2020 indicated important results, including an increase in yields of 18 percent for cereals and pulses, 45 percent increase for fruits and vegetables, 39 percent increase for milk and eggs, and 78 percent increase for honey.
- The mid-term survey results also reported remarkable increase in agricultural revenues in specific value chains. In particular, real revenues increased by 114 percent for cereals and pulses, 76 percent for fruits and vegetables, 204 percent for milk, 45 percent for honey, and 42 for eggs.
- The marketing component has facilitated 47 commercial partnerships between producer groups or cooperatives and agribusinesses such as processors and wholesalers.

13. The Project's cumulative disbursement to date has reached US\$481.32 million and the balance to be disbursed before closing is US\$43.39 million. The Project is in compliance with all applicable World Bank policies. Quarterly Interim Financial Reports and audited financial statements are submitted on time. There are no issues related to procurement, and all Safeguard instruments are in place and cleared by the World Bank. Furthermore, the Project is complying with all its Legal Covenants.

14. There are no outstanding audits on any project accounts.



15. Project implementation during the extension period will primarily focus on completing ongoing small-scale irrigation subprojects across the regions (Component 3). In addition, it will implement remaining activities in the Tigray region, and in particular (i) deliver agricultural services to conflict-affected farmers in the region to help them to recover and rebuild their productive capacity (Component 1), and (iii) rehabilitating productive agricultural infrastructure and equipping of farmer training centers in the region (Components 1 and 3).

II. DESCRIPTION OF PROPOSED CHANGES

16. In response to the Government’s request dated May 10, 2023, the proposed restructuring would extend the closing date to July 7, 2024 to: (i) allow for completion of the construction and handing over (to beneficiaries) of the 57 SSI subprojects covering 6,507 ha; and (ii) support farmers in conflict-affected areas of the Tigray region to recover agriculture production by delivering agricultural services, rehabilitating productive agricultural infrastructure, and equipping of farmer training centers. This will be the third extension of the closing date. First extension was to January 10, 2022. Second extension was to June 15, 2023. With this extension, the cumulative extension will be 3 years and 9 months.

17. The proposed extension of the closing date for the project would also include extending the closing date for the Recipient-Executed Trust Fund co-financing the project (Grant TF0A4876) to October 31, 2023.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓



Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-56050	Effective	10-Oct-2020	10-Jan-2022, 15-Jun-2023	07-Jul-2024	07-Nov-2024
IDA-D7220	Effective	15-Jun-2023		07-Jul-2024	07-Nov-2024
TF-A4876	Effective	10-Oct-2020	10-Jan-2022, 15-Jun-2023	31-Oct-2023	29-Feb-2024
TF-A7195	Closed	30-Sep-2020	18-Mar-2021		
TF-B5971	Effective	15-Jun-2023		15-Jun-2023	15-Oct-2023