

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC15459

<b>Project Name</b>	Oromia Forested Landscape Carbon Finance Project (P151294)
<b>Region</b>	AFRICA
<b>Country</b>	Ethiopia
<b>Sector(s)</b>	Forestry (90%), General agriculture, fishing and forestry sector (10%)
<b>Theme(s)</b>	Climate change (60%), Land administration and management (20%), Water resource management (15%), Biodiversity (5%)
<b>Project ID</b>	P151294
<b>Borrower(s)</b>	Federal Ministry of Finance and Economic Development, Federal Democratic Republic of Ethiopia
<b>Implementing Agency</b>	Ministry of Environment and Forest (MEF)
<b>Environmental Category</b>	B-Partial Assessment
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## I. Introduction and Context

### Country Context

1. The population of Ethiopia in 2014 is estimated to be about 95 million people, and growing to at least 120 million by 2030. Up to 83% live in rural areas and are directly dependent on livelihoods and energy from land resources. With a land area of over 1.1 million km<sup>2</sup>, Ethiopia is ecologically, culturally and ethnically diverse. It has a federal democratic government system with nine autonomous states (“regions”) and two chartered cities. Since the early 1990s, Ethiopia has pursued a “developmental state” model with a strong public sector role in many aspects of the economy including forest, energy, agriculture, and water. From 2004 to 2014, Ethiopia experienced strong and generally broad-based real economic growth averaging over 10 percent per year, contributing to the country’s progress toward the Millennium Development Goals – a notable achievement for one of the ten poorest countries in the world.

2. Ethiopia’s current development agenda is governed by two key strategies, the Growth and Transformation Plan (GTP) and the Climate Resilient Green Growth (CRGE) strategy. Both strategies prioritize the attainment of middle income status by 2025 and, through the CRGE process, to achieve this by taking low carbon, resilient, green growth actions. The three key objectives of the CRGE Strategy are to: (i) foster economic development and growth; (ii) maintain the 2010 level of greenhouse gas (GHG) emissions of 150 MtCO<sub>2</sub>e; and (iii) improve resilience to climate change.

The CRGE strategy places strong emphasis on agriculture and forestry, which “contribute around 45 and 25 percent respectively to projected GHG emission levels [by 2030] under business-as-usual assumptions, and together account for around 80 percent of the total abatement potential.” The CRGE Strategy also targets 7 million hectares for forest expansion. The CRGE is considered a key pillar in the GTP-2 planning process that was launched by the Government in mid-2014.

### **Sectoral and Institutional Context**

3. Low carbon growth is resilient green growth in rural Ethiopia. This is particularly the case in the rural landscape, where the health of forests and the productivity of land around the forests help determine (i) the level of carbon that can be sequestered and the GHG emissions that can be avoided; (ii) the level of vulnerability that rural populations and the rural economy have to exogenous shocks from climate risks, disasters, drought, flood and disease; (iii) the level of stress on biodiversity, water, and soil resources. In fact, land degradation is a major stressor on the natural resource base and crop yield gap, food insecurity, and rural poverty. The minimum annual cost of land degradation in Ethiopia is estimated at the range of 2-3 percent of agricultural GDP. This is a significant loss for a country where agriculture—broadly defined to include forest products—accounts for nearly half of GDP, and is a source of livelihood for more than 85 percent of people who at times find that traditional coping mechanisms have become over-stretched, leading to resource scarcity and further degradation, as well as potential resource use conflicts. This situation is further complicated by the higher probability of extreme weather conditions and increased variability in rainfall patterns arising from climate change (Economics of Adaptation to Climate Change, 2010).

4. Forests nationally, and in the Oromia regional state in particular, continue to shrink primarily from demand for cropland and firewood. Between 1990 and 2005, Ethiopia lost over 2.1 million hectares (ha) of forests with an average annual loss of 140,000 ha and annual deforestation rate of nearly one percent. The CRGE Strategy reports that the business as usual scenario will result in nine million ha deforested between 2010 and 2030. Over the same period, annual fuel wood consumption is expected to rise by 65% – leading to forest degradation of more than 22 million tons of woody biomass (CRGE, 2011). More than half of the deforested areas are located in Oromia, which is the largest state in terms of land area (28.5 million ha), has the most extensive dense forest cover (around 2,200,000 ha in total, around 60 percent of the country’s total, according to FAO), and largest population (over 30 million).

5. Forests in Oromia provide critical ecosystem services to the country and to the region. In Oromia, deforestation has been particularly intense in a few hotspots such as the Bale eco-regional zone and Jimma-Ilubabor which, together, have approximately 1.25 million ha (see maps in Annexes 4,5 and 6) including high forest, low forest, high woodlands and surrounding agricultural land. The Bale forests serve as the water tower for the eastern drylands in the Somali region and the country of Somalia, areas where mobile pastoralism is the predominant livelihood system. It harbors globally important biodiversity with endangered endemic species such as the Abyssinian wolf and the mountain nyala. The Jimma-Ilubabor forest block is home to endemic coffee (Coffee arabica) that has high potential as a value-added export, and harbors wild varieties of the species. The sources of important rivers in Ethiopia’s interior are also found in the Oromia’s forests, including those flowing into the new Renaissance Dam under construction (not Bank-financed).

6. Deforestation and forest degradation have direct and indirect causes related to several economic sectors. Subsistence and commercial agricultural expansion, firewood collection, charcoal

production, illegal logging, and forest fires have been identified by the Government as the main drivers of deforestation and forest degradation in the country (REDD+ Readiness Preparation Proposal or R-PP, 2012). Local communities are heavily dependent on forest resources. As an example, biomass energy sources are the major source of energy for 94% of Ethiopia's population, with consumption estimated at about 53.6 million tons per year (Wood-Based Biomass Energy Development for Sub-Saharan Africa, 2011). Indirect causes of deforestation are thought to relate to increased population, cash commodity prices, migration into forested areas, road network expansion and lack of effective land use planning.

7. Continued conversion of forest into cropland calls for more integrated land use planning and management. Smallholders often depend on mixed production systems including various combinations of livestock, trees, and crops. Ethiopia is home to Africa's largest livestock sub-sector, with systems often characterized by low productivity, poor animal nutrition, low levels of veterinary care and overgrazing. Insufficient cropland management and rapid depletion of vegetation cover lead to erosion and significant losses of arable land. It is estimated that approximately 40 million ha of land are degraded. Among other reasons, uncertain tenure, and various barriers related to markets and finance have encouraged farmers to opt for short-term exploitation (such as nutrient mining") and insufficient investments leading to additional degradation, lower farm productivity and further extensification that converts woodlands and forest into agricultural land. In addition, the Government been promoting large-scale industrial agriculture, which has been also linked to deforestation in some areas of the country.

8. To help achieve the CRGE Strategy's goals on land use change and forest, the Ministry of Environment and Forest (MEF) is implementing its national REDD+ Readiness Program to prepare the country for receiving and deploying climate finance for sustainable forest management. With \$13.6 million in grant financing from the World Bank through the BioCarbon Fund and the Forest Carbon Partnership Facility (FCPF), MEF has been implementing six sets of technical assistance activities, including: (i) Design and implementation of National REDD Readiness management arrangements and stakeholder consultation and participation (including benefits sharing arrangements); (ii) Preparation of a REDD+ strategy proposing a set of program or policy actions to reduce deforestation and/or forest degradation and enhance and conserve carbon stocks, that directly addresses the key drivers of deforestation and degradation; (iii) Establishment of a Reference scenario that represents an estimate of historic forest cover change and greenhouse gas (GHG) emissions and uptake from deforestation and/or forest degradation and the other REDD-plus activities; (iv) Design of a monitoring, reporting and verification (MRV) system for emissions and removals from forests; (v) Design of a Monitoring and evaluation framework, and (vi) Preparation of 3-4 national REDD+ pilots in different regional states.

9. One main purpose of the REDD+ pilots is to test the different elements being developed as part of the national REDD+ Readiness Program. The lessons learned from these pilots will inform the national REDD+ Readiness process and assist Ethiopia to roll out the REDD+ Program and receive and deploy climate finance. To properly test the national REDD+ systems, the REDD+ pilots will need to cover relatively large landscapes so they are efficient at reducing transaction costs and leakage risks .

10. One of the national REDD+ pilots would be implemented in Oromia regional state. To support this effort, donors to the World Bank's BioCarbon Fund have made a pledge to provide at least \$50 million for performance-based payments. In the context of the BioCarbon Fund,

performance is measured as the tons of CO<sub>2</sub> that are resulting from the conservation and rehabilitation of forest. The Government of Ethiopia selected Oromia to be the first region to test a large-scale REDD+ pilot operation, since it is the region with the largest forest cover in the country, and also where the first REDD+ project in Ethiopia was designed.

### **Relationship to CAS**

11. The World Bank's Country Partnership Strategy (CPS) for FY 12-15 focuses on the promotion of economic growth and the reduction of vulnerability. The Bank's over-arching goal remains to support the country's growth and poverty reduction objectives articulated in the GTP. The objective of deploying forest carbon finance in Ethiopia is to harness the potential of forested landscapes to help equitably reduce poverty by investing sustainably in natural wealth and resilience. The proposed support to the sector therefore contributes to the CPS objectives of fostering economic growth and improved governance, while reducing vulnerability.

## **II. Proposed Development Objective(s)**

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12. The Project Development Objective is to reduce deforestation and net greenhouse gas emissions from land use in targeted large forested landscapes in Oromia.

### **Key Results**

13. The key PDO level indicators are listed below. The Results Framework is in Annex 3.
- i. Net GHG emissions in intervention area (t/CO<sub>2</sub>-e, annually reported);
  - ii. Net deforestation in intervention area (Ha, annually reported);
  - iii. Direct beneficiaries in intervention area (gender disaggregated).

## **III. Preliminary Description**

### **Concept Description**

14. Addressing the drivers of deforestation and forest degradation in Ethiopia will require an integrated landscape perspective that addresses trade-offs and synergies among land uses that include forest, crop, livestock, water, and household energy objectives. The proposed REDD+ pilot project in Oromia ("Oromia Forested Landscape Carbon Finance Project") would require both direct investments and activities to improve the enabling environment for landscape-level management, and forest resources in particular, by (i) convening carbon finance, knowledge and tools; as well as (ii) strengthening institutional and community capacity to plan, implement and monitor forest and land resources.

15. To support the Oromia Forested Landscape Program, up to \$50 million has been pledged as results-based carbon finance payments, channeled through the World Bank's BioCarbon Fund Initiative for Sustainable Forest Landscapes. These funds would be disbursed in two phases:

- i. An Implementation Phase, where potential advance payments could be disbursed against the achievement of agreed-upon outputs and intermediate results. These advance payments would be a percentage of the \$50 million carbon finance payments and would be paid for the future expected emission reductions (the financial envelope for this phase still needs to be negotiated with the donors of the BioCarbon Fund);
- ii. An Emission Reduction Phase, where payments will be made against verified emission reductions. Any advance payments would be subtracted during this phase and Emission Reductions

payments will only be available if more emission reductions are available than what has already been paid as advanced payments. The BioCarbon Fund donors are expected to assume the financial risk of making the advance carbon payments yet not attaining the expected emission reductions.

16. The Implementation Phase is proposed to be five years, from 2015 to 2020, to allow sufficient time to mobilize and empower diverse stakeholders involved in landscape management, including forest-dependent communities. The project would attempt to start generating verifiable emissions reductions after three years of project implementation, and the Project could pay for those emissions reductions for five or more years. Emission reductions could continue after the lifetime of the Bank-financed project, and would be expected to be purchased by other donors / buyers.

17. State-wide scope of intervention: A technical study is underway to analyze the drivers of deforestation and the strategic options to address those drivers. This study will identify options for activities and the geographical area (large landscapes) where the Implementation Phase should be focused, along with the estimated costs of each activity. Based on the currently available information, the targeted areas of the project would be approximately 40-60 woredas located in and around the Bale and Jimma / Ilubabor forested landscapes, which harbor nearly all high forests, along with significant areas of low forests and high woodlands in the state. The precise boundary of this area will be determined during project preparation but is anticipated to be larger than 1.25 million hectares of forest, allowing for a “jurisdictional” approach to be taken covering at least 40-60 woredas. This is the area where investments expected to generate emissions reductions would be promoted, accounted and paid for . At the same time, the project would monitor forest cover change and land use change more generally throughout Oromia, to provide experience needed for putting in place a larger state-wide jurisdictional approach for managing forest carbon. The project would also promote enhancements to the enabling environment state-wide for reducing deforestation such as by land tenure certification and land-use planning.

18. At the moment, the funding available through the Project is not likely sufficient to support all woredas or all forested landscapes in Oromia. It is possible that the proposed project could be the first in a series of projects regionally and nationally that support the government in establishing and implementing a sector-wide approach to investment in sustainable forest landscapes, with strong strategic linkages to the Bank-financed SLMP-2 among other Bank-financed projects.

### Implementation Phase

19. The proposed project would have three components during the implementation phase (2015-2020) that together set the stage for the country and communities to receive further emissions reduction payments from 2020 or earlier if verifiable emissions are produced. The proposed interventions are based on the best available information on the existing causes of deforestation in Oromia, which emphasizes small-scale agricultural expansion and wood collection for fuel as the most important causes at present. Increasing land and agriculture productivity through sustainable land management practices such as agro-forestry, conservation agriculture, low-tillage and water harvesting is expected to reduce smallholders’ needs to farm additional land. Such activities would be coupled with local land use planning, whereby communities would identify and agree to conserve forest areas (particularly in the frontier between cropland and forests). Finally, rights to forest management would be devolved from government to local communities via participatory forest management, which is an approach implemented in Ethiopia with some success, including in

Oromia. These interventions will be refined once the causes and agents of deforestation and the land use dynamics are better known.

20. The initial start-up work in the three components would be financed by advance carbon payments. Where possible, existing project resources from associated projects could also be deployed where there is geographical and activity overlap. For example, the Bank/Norway/GEF-financed Sustainable Land Management Project 2 (SLMP-2) covers 39 woredas in Oromia, but none in the Bale eco-region. On the other hand, other initiatives, such as those led by Farm Africa (NGO) and JICA have been supporting PFM in the project area and could contribute to generating ERs.

21. The proposed project is fully in line with and contributes to the national REDD+ framework currently being prepared by the federal government under the leadership of MEF. Monitoring of forest cover and forest cover changes will follow methodologies established at the national level, and the data generated by this pilot project would feed into the national forest cover monitoring system. The project would test on the ground the main elements of the national REDD+ strategy, including policies and activities to address deforestation from forest conversion into cropland and wood collection for charcoal making. Finally, the project would adopt the national-level policies on REDD+, including any eventual policy on benefit sharing if compliant with Bank safeguards policy.

#### Component 1. Multi-sector landscape management interventions

22. Sub-component 1.1. Participatory forest management (PFM) for existing and new forest. This sub-component would finance participatory forestry management (PFM) as a strategy to conserve and sustainably use forest resources by giving local communities rights and responsibilities for management, and supporting them in harvesting and adding value to non-timber forest products from existing or new forests. The project would scale up the approach that is being successfully implemented in Oromia. The sub-component would also finance large- and small-scale reforestation and afforestation activities, as well as natural regeneration of deforested or degraded land, building on the experience from the successful Humbo carbon finance project linked to the Bank-financed SLMP-1.

23. Sub-component 1.2. Soil and water conservation and crop and range land management. This sub-component would finance the promotion of agroforestry, agriculture intensification, soil and water conservation and other climate-smart practices that deliver multiple wins and can reduce pressure on forest resources or provide alternative livelihoods or energy sources. Such practices would be demand-driven and could include locally appropriate options such as smallholder agroforestry (i.e., fertilizer trees), low tillage, re-vegetation of communal lands, bunding, terracing, cover crops, and grazing enclosures. Such interventions will draw from the experience of the Bank-financed SLMP-2, Productive Safety Nets Program (PSNP) and the Agricultural Growth Program (AGP). The main local partner to implement these activities would be the Oromia Bureau of Agriculture which is responsible for implementing SLMP-2, and potentially some NGOs.

24. Sub-component 1.3. Sustainable household energy. To help land users manage firewood demand, this sub-component would finance the promotion of cooking stoves, bio-digesters, and improved efficiency kilns. Innovations appropriate to Ethiopia would be explored during project preparation, such as the use of fast-growing, small-holder managed *Gliricidia* trees, as appropriate, to fuel small off-grid community-scale gasifier systems – a true integrated energy-food production

system.

25. Sub-component 1.4. Private sector innovations. This sub-component would support private sector development at community and SME level. Areas for support would be determined through on-going assessments and could include such growth-oriented sub-sectors as the development of sustainable timber operations, sustainable coffee/agroforestry supply chains (wild forest and shade coffee in particular), sustainable leather/livestock supply chains, biomass fuel processing, and so on.

Component 2. Strengthening the state-wide policy framework for sustainable landscape management

26. Sub-component 2.1. Land tenure certification. This sub-component would finance the state-wide expansion of rural land certification and would test tenure certification of forest lands. This would include the delivery of land certificates to individual female and male headed households as well as community-level certificates where applicable, such as in forest lands. The activities would build on lessons and approaches from SLMP-2's land certification component and the on-going Bank financed land certification technical assistance. Global best practice would also be brought to bear from community land tenure experiences, particularly in and around forests.

27. Sub-component 2.2 Participatory land use planning. This sub-component would finance state-wide the finalization of the ongoing land-use planning in Oromia. Watershed planning at various scales, from community to critical watersheds, would also be promoted where appropriate.

Component 3. Project management, monitoring and emissions verification

28. This component would finance project management arrangements and mechanisms such as monitoring and evaluation (M&E), third party verification, and implementation planning. The costs of this component will be partially financed in parallel by the Government (Federal and Oromia) through the funds currently financing the REDD+ Readiness process. Financing for Component 3 would be complemented by the on-going parallel REDD+ Readiness technical assistance grants at federal level to the extent possible, recognizing that the Oromia project is being implemented at the Oromia state level, and the REDD+ readiness activities are being implemented by MEF.

Emissions Reduction Phase

29. Payments would be made for those emissions reductions that have been independently verified. Those funds would only be accessed if the Project is able to demonstrate verified Emission Reductions (ER), based on a robust monitoring, reporting, and verification (MRV) system and against an agreed reference emissions level (REL). The maintenance and expansion of the activities would also occur through the ER payments. Payments would be made as early as possible once ERs are verified. These payments would be distributed according to a benefit sharing mechanism to be developed and agreed upon by the stakeholders during project preparation. It is envisioned that a significant proportion of the payments would reach communities on the ground.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09			x
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

## V. Financing (in USD Million)

Total Project Cost:	55.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
Carbon Fund			55.00
Total			55.00

## VI. Contact point

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