# PROGRAM INFORMATION DOCUMENT (PID)
## APPRAISAL STAGE

Report No.: _____

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|---|---|
| **Program Name** | Oromia Forested Landscape Program (P156475, P151294) |
| **Region** | AFRICA |
| **Country** | Ethiopia |
| **Sector(s)** | Forestry sector (90%), General Agriculture, Fishing and forestry (10%) |
| **Theme(s)** | Climate change (60%), Land Administration and Management (20%), Water Resource Management (15%), Biodiversity (5%) |
| **Lending Instrument** | Carbon Finance Transaction and Grant |
| **Program IDs** | P156475 (Grant), P151294 (ERPA) |
| **Borrower(s)** | Federal Democratic Republic of Ethiopia |
| **Implementing Agency** | Ministry of Environment and Forest |
| **Environmental Category** | B-Partial Assessment |
| **Date PID Prepared/Updated** | 8-September-2015 |
| **Estimated Date of Board Approval** | 5-Jan-2016 (RVP Approval – Carbon Finance operations do not go to Board) |
| **Decision** | 21-September-2015 |
| **Other Decision** | |

## I. Program Context

### Country Context

Ethiopia has achieved substantial progress in economic, social and human development over the past decade, achieving rapid and inclusive economic growth averaging 10.9 percent since 2004. Extreme poverty fell from 56 percent in 2000 (one of the highest levels internationally) to 31 percent in 2011. Low levels of inequality have been maintained through this period. Non-monetary dimensions of well-being also show strong improvement. Life expectancy, for instance, increased by one year every year over this period, from 52 to 63 years. Meanwhile, the 2014 population of 95 million people (WBG, 2013) will grow to at least 120 million by 2030.

As an expanding population lives longer, the economy grows, and climate risks intensify, tremendous demands are being placed on the stressed natural resource base.  Up to 83 percent of the population is rural and directly dependent on livelihoods and energy from land, forest, and water resources, while urban centers also depend on them for food, water and energy. The natural resource base has been deteriorating over time, which amplifies exposure to substantial environmental and climate risks that affect food and water security, energy, and human health, among others. These risks are reflected in the

40 percent rate of degraded land with another 20 percent under degradation processes,[1] helping drive an annual forest depletion rate of over 1 percent due largely to demand for wood fuel and agricultural land.[2] Deforestation generated an economic loss over US$ 5 billion from 1990 to 2010. The broad economic value of forest services was estimated at 18.8 percent of GDP in 2009 through wood and non-wood forest products and ecosystem services (such as water provisioning, flood and drought risk reduction, inter alia (Nune et al, 2009).[3] Business as usual will lead to an additional nine million hectares deforested between 2010 and 2030 (MoFED, 2011). This situation is further complicated by the higher probability of extreme weather conditions and increased rainfall variability from climate change[4].

The Government of Ethiopia (GoE) recognizes the need to re-invest natural capital to drive and protect growth and prosperity. Ethiopia's current challenge is to sustain progress, building on elements of its development strategy that have worked well and that are sustainable. Since the early 1990s, Ethiopia has pursued a "developmental state" model with a strong public sector role in forest, energy, agriculture, and water through its federal system with nine autonomous states[5] ("regions") and two chartered cities. GoE is increasingly emphasizing: (i) sustainable forest sector development, particularly in Oromia where two-thirds of the country's forest is located and where the deforestation trends are greatest, as well as where strategically critical rivers originate; and (ii) better overall management of the natural resource base, as its degradation reduces resilience, especially among the poorest, and hinders economic opportunities.

Ethiopia's development agenda is governed by two key strategies: the Second Growth and Transformation Plan (GTP-2) and the Climate Resilient Green Economy (CRGE). Both strategies prioritize attainment of middle income status by 2025 and, through the CRGE Strategy, to achieve this by taking low carbon, resilient, green growth actions. Both strategies emphasize agriculture and forestry, which the CRGE Strategy reports would "contribute around 45 and 25 percent respectively to projected greenhouse gas (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 targets 7 million hectares (ha) for forest expansion. GTP-2 Goal 15 aims to: "Protect, restore and promote sustainable use of terrestrial ecosystems by managing forests, combating desertification, and halting and reversing land degradation and halt biodiversity loss."

## Sectoral and Institutional Context

Ethiopia's largest forested landscapes are found in Oromia, which provide critical ecosystem services to the country and to the region. Oromia is Ethiopia's largest regional state in terms of land area (around 28.5 million ha, roughly the size of Italy), population (over 30 million people), and forest cover (approximately 8.7 million ha in total, around 47 percent of the country's total forested area).[6] Based on the national forest definition,[7] 274 of Oromia's 277 rural and semi-rural woredas include some forest.[8] Most of Oromia's high forest (moist montane forests) is found in the Bale forested landscape in

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[1] Freddy Nachtergaele, Monica Petri, Riccardo Biancalani, Godert van Lynden, Harrij van Velthuizen, Mario Bloise. *Global Land Degradation Information System (GLADIS). An Information database for Land Degradation Assessment at Global Level.* LADA FAO/UNEP: 2011.

[2] *Drivers of Deforestation and Forest Degradation.* Draft study for National REDD+ Readiness: Unique Consultants, 2015.

[3] The direct contribution of the forestry sector to GDP was 1.9 percent in 2013.

[4] WBG. *Economics of Adaptation to Climate Change in Ethiopia.* 2010.

[5] The regional states are Afar; Amhara; Benishangul-Gumuz; Gambela; Oromia; Somali; Harari; Southern Nations, Nationalities, and Peoples Region (SNNPR); and Tigray. The two chartered cities are Addis Ababa and Dire Dawa.

[6] This data was calculated using the 2013 map prepared by the Ethiopia Mapping Agency (data unpublished, 2015).

7 Forests in Ethiopia are defined as land with a minimum of 20% canopy cover, with trees at least 2 m high and a minimum size of 0.5 hectares. An updated map is expected from FAO/MEF in September 2015.

[8] Three out of 277 rural and semi-rural woredas register no forest cover at all, while 274 woredas have at least 5 ha of forest (2013 EMA map).

the southeast and the Jimma/Wellega/Ilubabor forested landscape in the west. Bale serves as the water tower for Ethiopia's eastern drylands in Oromia and the Somali region as well as the country of Somalia, drought-vulnerable arid areas where mobile pastoralism is the predominant livelihood system. Oromia harbors globally important biodiversity with endangered endemic species such as the Abyssinian wolf and the mountain Nyla. Oromia's western forests are home to endemic coffee (Coffee Arabica) that has high potential as a value-added export, and harbor wild varieties of the species. Important rivers also originate in or are affected by Oromia's forests, including those flowing into the new Renaissance Dam under construction.

Forest loss and degradation are increasing in Oromia. Deforestation in Oromia has been particularly intense in zones[9] in the west (West Wollega, Qeleme Wollega, Ilu Aba Bora) and east (Bale and Guji). Throughout Oromia, nearly 157,000 ha of forest was lost between 2000 and 2013, or around 12,000 ha/year. This has resulted in over 46 million tons of $CO_2$ equivalent emitted into the atmosphere over this period, or around 3.5 million tons annually (calculated based on Hansen et al, 2013 and Det Norske Veritas, 2015). At the same time, the historic afforestation/reforestation (A/R) rate is almost 3,100 ha/year, leading to a gain of over 330,000 tons of $CO_2e$ annually.

Deforestation and forest degradation in Oromia are driven primarily by small-scale conversions for agricultural expansion as well as wood extraction for firewood and charcoal purposes. Subsistence agriculture is the main economic activity throughout Oromia, with farmers cultivating diverse crops such as barley, wheat, beans, potatoes, and cabbage in highlands and bananas, maize and teff in lowlands.  Extraction of fuel wood is a driver of degradation throughout Ethiopia. Firewood is the primary source of energy for 94 percent of Ethiopia's population and the most important forest product consumed in Ethiopia, with total 2013 consumption exceeding 116 million m³. The majority of firewood is produced from natural forest, including woodlands and shrub lands, and current firewood demand is estimated to significantly exceed the sustainable yield potential of remaining forest areas.[10] Indirect drivers include inadequate development and implementation of land-use plans, weak cross-sectoral policy and investment coordination, population growth and migration into forested areas, as well as road expansion.

Forests in Oromia are managed by, affected by, or used by a range of government institutions and citizens. Coordination of investments, institutions, information, and incentives that impact or are impacted by forest resources is extremely weak.  Almost all forested areas fall under the mandate of Oromia authorities including the Oromia Forest and Wildlife Enterprise (OFWE) and the Oromia Bureau of Agriculture (BoA). Other regional bureaus responsible for environment, land, energy, and water are also central to forests and land-use change. Bale National Park and four other national protected areas[11] are under the federal mandate of the Ethiopia Wildlife Conservation Authority (EWCA).

To help address the above issues and achieve Ethiopia's CRGE Strategy's objectives on land use change, forest, and climate action, the Ministry of Environment and Forest (MEF) is implementing its National REDD+[12] Readiness Program to prepare the country for receiving and deploying climate finance and other financing. Ethiopia intends to utilize REDD+ related financing to achieve its national ambition for green growth, as articulated in the GTP-2 and the CRGE Strategy. With US$ 13.6 million in grant

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[9] Zones are an administrative unit in Ethiopia. Regional states are divided into zones, which are sub-divided into woredas and then kebeles.

[10] WBG. Forest Sector Review. Technical Assistance under the CRGE Facility TA support task.   Unpublished final draft, 2015.

[11] Awash National Park, Abijata Lake National Park, Babile Elephant Sanctuary and Senkele Wildlife Sanctuary.

[12] REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks (www.forestcarbonpartnership.org).

financing for REDD+ Readiness from the World Bank Group (WBG)[13] through the BioCF and the Forest Carbon Partnership Facility (FCPF), MEF has been implementing a set of "readiness" activities such as: (i) preparation of four REDD+ pilots in different regional states including the proposed Oromia Forested Landscape Program (OFLP, the subject of this PAD); (ii) development of a monitoring, reporting and verification (MRV) system that would be used for justifying emissions reductions payments upon performance including for the OFLP; and (iii) preparation of the National REDD+ Strategy.

One main purpose of the REDD+ pilots is to test different elements of the National REDD+ Readiness Program. The lessons learned from these pilots will inform the National REDD+ Readiness Program and assist Ethiopia to receive and deploy results-based climate finance. The pilots would need to cover relatively large landscapes to reduce transaction costs, leakage risks,[14] and maximize the likelihood of effectively reducing deforestation.

One of the national REDD+ pilots is the OFLP, which would extend beyond the traditional REDD+ agenda as a long-term programmatic effort to scale-up and finance improved land use, starting with: a (i) mobilization grant; and (ii) results based emissions reductions payments. These two sources of financing form the subject of this PAD. These two complementary instruments would finance the GoE to enhance the enabling environment at state and local levels while supporting action on the ground for landscape restoration and livelihoods improvements. The GoE selected Oromia to test this large-scale jurisdictional REDD+[15] pilot operation since it has the largest forest cover in the country, and hosts the first REDD+ project in Ethiopia (the Bale Mountains REDD+ project, led by OFWE and supported by Farm Africa). Past pilots such as the renowned Humbo Assisted Natural Regeneration[16] have demonstrated proof of concept of carbon financing for improved land-use in a small degraded landscape, yet moving to scale presents more complex challenges – challenges that are addressed by the proposed OFLP.

## II. Program Development Objective(s)

There are two Program Development Objectives, one for the Emissions Reduction Purchase Agreement (ERPA), and one for the mobilization grant, as follows.

ERPA PDO: To reduce net greenhouse gas (GHG) emissions from forest cover change in the regional state of Oromia.

Mobilization grant PDO: To improve the enabling environment for sustainable forest management and investment in the regional state of Oromia.

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[13] The WBG manages two trust funds that directly support REDD+ Readiness in Ethiopia: (i) a US$ 3.6 million grant from the FCPF signed in October 2012; (ii) a supplemental US$ 10 million grant from the BioCarbon Technical Assistance Fund signed in July 2014 for GoE to complete its REDD+ Readiness process and prepare investment pilots, including the OFLP. It was agreed, during the WBG's Decision Meeting for the US$ 10 million supplemental grant, that OFLP would follow WBG project cycle guidelines for carbon finance operations.

[14] Leakage means an increase of emissions elsewhere due to implementation of a land use carbon finance project. For example, if an area of agricultural land is converted into a forest plantation, it becomes a carbon sink by converting $CO_2$ from the atmosphere into carbon in wood and other plant matter. However, at the same time, forests in a different area may be cleared to host the very same agricultural production that was displaced. This means that there would be no net benefit from the new forest in terms of reduced GHG – so no payment would be made.

[15] For the purposes of this PAD, REDD+ jurisdictional approach means fostering the reduction of deforestation and forest degradation within a political or administrative region *within* a country. In this case, the political and administrative region is Oromia regional state.

[16] The Humbo Assisted Natural Regeneration is a carbon finance project that rehabilitated 4,000 hectares of degraded areas, and by so doing, receives payment for the carbon sequestered. It was the first project in Africa to be registered as a Clean Development Mechanism A/R project.

## III. Program Description

OFLP would be Oromia's strategic programmatic umbrella and coordination platform for multi-sector, multi-partner intervention on all forested landscapes in Oromia. The 10-year program would contribute to a transformation in how forested landscapes are managed in Oromia to deliver multiple benefits such as poverty reduction and resilient livelihoods, climate change mitigation, biodiversity conservation, and water provisioning. OFLP would foster equitable and sustainable low carbon development through a series of: (i) on-the-ground activities that address deforestation, reduce land-use based emissions, and enhance forest carbon stocks; and (ii) state-wide and local enhancements to institutions, incentives, information, and safeguards management to upscale investment (enabling environment), including coordinating and leveraging multiple REDD-relevant interventions[17] across the regional state.

OFLP would help enable GoE to strategically mobilize, coordinate and scale-up funding programmatically from diverse sources. The success of OFLP and the achievement of the GoE's broader forest, land-use, and climate ambitions depend on OFLP's ability to leverage financial resources from existing and future REDD-relevant initiatives such as PSNP, SLMP, AGP, private sector activities, the CRGE Facility, bilateral support, farmers' own investment, and government budget. REDD-relevant initiatives also include REDD+ projects that are currently seeking carbon payments, which would be nested (see paragraph 22), into OFLP, such as the Bale Mountains REDD+ project.

Two types of REDD-relevant initiatives are distinguished: (i) existing REDD+ projects that seek to account for and sell emissions reductions (ERs), such as the Bale Mountains REDD+ project and Nono Sele Participatory Forest Management REDD+ project; (ii) initiatives that contribute to REDD+ goals but are not seeking to account for and sell ERs such as AGP which is currently supporting agricultural intensification; and/or the Land Investment for Transformation (LIFT) program which seeks to improve land certification. The former group would be 'nested' into OFLP (see paragraph below), while the Oromia REDD+ Coordination Unit (ORCU) would seek to further coordinate the second type of interventions towards OFLP goals.[18]

Nesting existing REDD+ projects into OFLP: Allowing REDD+ Projects to directly account for ERs at the project level (and potentially earn incentives/payments directly from the international or bilateral system based on those reductions) could help OFLP attract new sources of financing. However, this would require nesting of these projects within OFLP. Nesting means that GoE would need to put in place a methodological and programmatic approach that coordinates all on-going and planned REDD+ projects in Oromia under one umbrella (OFLP), including, among other things: the same benefit sharing rules, same baseline, consistency in how emissions and ERs are measured and reported, systems to avoid double counting of ERs, and consistency in how social and environmental sustainability approaches are applied following WBG safeguard policies and procedures. Nesting would allow for results to be achieved in the landscape within a shorter period of time given that some projects are already on-going (e.g. Bale Mountains REDD+ project), while also increasing the overall financial envelope available for OFLP.

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[17] REDD-relevant initiatives are projects, programs and activities in general promoted by GoE, donors, NGOs or private sector that directly or indirectly contribute to reducing emissions from deforestation or increasing forest carbon stocks in the Oromia Regional State. Examples of these initiatives, include, the Ministry of Agriculture's SLMP, JICA and OFWE's efforts to promote participatory forest management (PFM) and new forest-based business models (including forest coffee) and OFWE's planted forests.

[18] The mobilization grant would complement and be coordinated with the significant investments that are already being made in the OFLP area including WBG-financed operations such as the Sustainable Land Management Program (SLMP), the Agricultural Growth Program (AGP), and Productive Safety Net Program (PSNP); and projects not financed by the WBG such as the Bale Eco-regional REDD project, Nono Sele PFM REDD+ Project, and private sector investments involving International Finance Corporation (IFC), TechnoServe, Nespresso, etc.

OFLP would therefore provide grant resources for attracting new financing, expanding the total envelope toward improved land-use, forest retention and forest gains. There is common understanding between GoE and development partners that a robust enabling environment is crucial for successfully implementing a REDD+ jurisdictional approach for ER payments and for leveraging and scaling-up action and investment on-the-ground. OFLP should therefore serve as a "scale-up engine".

OFLP would establish the programmatic approach through two financial instruments that would be supported by two legal agreements: (1) a US$ 18 million Grant Agreement for 5 years; and (2) a US$ 50 million Emissions Reduction Purchase Agreement (ERPA) of up to 10 years. The two instruments would be synchronized in one strategic program.

The 5-year mobilization grant would finance the establishment and initial implementation of the state-wide jurisdictional Program. The grant would finance the GoE to strengthen its state-level and local-level enabling environment and implement selected on-the-ground investment activities. The grant would facilitate the achievement of ERs (and resulting ER payments) while also leveraging greater financial resources from multiple sources (see paragraph 30 and table 2 for further details). The grant would in particular finance: (i) TA among all rural and semi-rural woredas across the state (such as landscape management coordination, land-use planning support, and safeguards management); and (ii) selected forest investment and livelihoods support in deforestation hotspots with high carbon content (47 woredas).[19]

ER payments of US$ 50 million for verified carbon performance paid in a period of up to 10 years (2016-2026). These payments would be available once the Program achieves, verifies and reports on results in terms of reduced emissions. The ER payments would be distributed according to a Benefit Sharing Mechanism (BSM) and used primarily to ensure sustainability of land-use interventions, as well as to scale up action in other geographical areas within Oromia. This climate financing would be channeled through an ERPA to be signed between GoE and WBG. The envelope for these payments could grow as OFLP becomes operational and generates results, and as other ER buyers show interest in OFLP.

The OFLP geographic boundary is all forests in Oromia. Specifically, the Program would monitor and account for positive and negative changes in forest cover and associated GHG emissions reduction within all 277 rural and semi-rural woredas within the regional state boundaries of Oromia (i.e., the "accounting area of the Program"). As per the 2013 EMA map and the National REDD+ Secretariat's proposed forest definition, this includes 8.7 million hectares of forest, spread over all of Oromia's rural and semi-rural woredas. The stakeholders that would benefit from ER payments would be defined in the BSM currently under preparation by the GoE.

The BSM provides an operational solution for disbursing the performance-based ER payments equitably, effectively and efficiently. The BSM would be designed during OFLP implementation via a robust consultation process including with local communities state-wide. A BSM manual, subject to no-objection from the WBG, would be prepared by the GoE prior to ERPA signature. The BSM manual would describe the eligibility criteria, the allocation procedures, and the flow of funds.

Monitoring forest cover and forest cover changes would follow methodologies that are being established at the national level, and in line with international best practices. The data generated by OFLP would feed into the national forest cover monitoring system and UNFCCC reporting more broadly.

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[19] These 47 woredas were selected according to: (i) presence of high forest areas (given the high carbon stocks in these forests); (ii) large size deforested area and high rate of deforestation within these woredas; and (iii) contiguity.

**Program Components**

OFLP has three components. The US$ 18 million mobilization grant would finance components one and two over a 5-year period: (1) Enabling Investments; and (2) Enabling Environment. These funds would be channeled to GoE as a recipient executed (RE) grant. The third component would consist of up to US$ 50 million of ER Payments for verified emissions reductions as they are delivered over a 10-year period (the components overlap in time).

Component 1.  Enabling Investments (US$ 10.79[20] million RE grant, 5-year period)

Component 1 would finance investment in participatory forest management and reforestation in deforestation hotspots in sites to be selected, as well as extension services, and land-use planning state-wide at state and local levels.

Component 2.  Enabling Environment (US$ 6.35[21] million RE grant, 5-year period)

Component 2 would finance complementary activities to improve the effectiveness and impact of institutions, incentives (i.e., policies, marketing, BSM), information (i.e., strategic communication, MRV) and safeguards management at state and local levels. This component would enhance the enabling environment to help scale up and leverage action on-the-ground to reduce deforestation and forest degradation.

Component 3.  Emissions Reductions (ER) Payments (US$ 50 million ERPA, 10-year period)

ER payments would be delivered once results are achieved, verified by a third party, and formally reported to the WBG. The ER payments could begin once the ERPA is signed and emissions reductions (results) occur, are verified and reported to the WBG. The ER payments would be managed by the GoE and distributed to the beneficiaries according to the BSM, which would aim to incentivize greater uptake of sustainable land use actions. The BSM will need to be formally adopted by the GoE before any ER payment can be made.

## IV. Financing (in USD Million)

| Total Program Cost: | 68.00 | Total Bank Financing: | 68.00 |
|---|---|---|---|
| Financing Gap: | 0.00 | | |

| **Financing Source** | **Amount** |
|---|---|
| BORROWER/RECIPIENT | 00.00 |
| Carbon Fund | 68.00 |
| Total | 68.00 |

## V. Implementation

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[20] Physical and price contingencies of 0.54 US$ m (5%) not included.
[21] Physical and price contingencies of 0.32 US$ m (5%) not included.

**VI. Safeguard Policies (including public consultation)**

| Safeguard Policies Triggered by the Program | Yes | No |
|---|:---:|:---:|
| 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 |

**Comments (optional)**


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