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# AGRIFOOD INVESTMENT PRIORITIZATION

C O U N T R Y   S E R I E S

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## ETHIOPIA

### Cost effective options for inclusive and sustainable development

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*This brief is part of IFPRI's series of country studies that utilize the RIAPA modeling system to systematically evaluate and rank agrifood system investment options based on their cost-effectiveness in achieving multiple development objectives. These country studies examine whether the rankings evolve over time and production shocks such as droughts influence their relative cost-effectiveness.*

#### **Abstract**

In this policy brief, we present findings of a systematic evaluation and ranking of investment options for Ethiopia's agrifood system based on their cost-effectiveness in achieving multiple development outcomes, including agrifood gross domestic product (GDP) growth, agrifood job creation, poverty reduction, declining undernourishment, and lowering diet deprivation. Additionally, the study assesses their environmental footprint, focusing on water consumption, land use, and emissions. Investments in small and medium enterprise (SME) traders and processors are shown to be the most cost effective at driving improvements in social outcomes, like poverty and undernourishment. They are also highly ranked in terms of expanding agrifood GDP and employment. Extension services for livestock, credit for farmers, R&D (agronomy), and safety nets also rank high. However, many cost-effective investments have relatively high environmental footprints, which highlights potential tradeoffs. The study further reveals shifts in the cost-effectiveness ranking of investment options overtime and when extreme production shocks occur.

**Keywords:** Investment priorities, agrifood system, economic, social, environment, Ethiopia

## Introduction

The agrifood system in Ethiopia is the engine of growth, the main employer, and the source of livelihood for millions. However, its main constituent is low-productivity agriculture, which struggles to supply affordable, high-quality food for the growing population. This juxtaposition underscores the urgent need for a sustainable transformation of the entire agrifood system. Providing technical and financial support to the sector is crucial to achieving this transformation. However, policy and investment choices, and the growth patterns they drive, play a decisive role in shaping the magnitude and sustainability of development gains (Christiaensen and Martin, 2018; Pham and Riedel, 2019). As such, policies and investments should be evaluated in terms of their impact on key economic outcomes, such as economic growth or job creation, as well as social outcomes, such as poverty, undernourishment, or diet deprivation. Understanding whether tradeoffs exist across these outcomes can help inform policymakers' decisions about resource allocations. Increasingly, policymakers and development partners are also incorporating environmental sustainability considerations into their assessments. This is based on an enhanced awareness that unsustainable production practices contribute to environmental degradation and to climate change, the burden of which will fall disproportionately on future generations of poor people (GLOPAN 2020).

The effectiveness of policies or investments may be affected by unanticipated shocks, such as global commodity market disruptions, conflict and war, and climate related events. We focus on the latter, given that climatic shocks have been the most significant exogenous factors affecting the performance of agrifood systems in Ethiopia (Hill and Porter, 2017). Extreme events such as drought and flooding have become increasingly common and are expected to intensify in frequency and severity (Godde et al., 2021; Palmer et al., 2023). For example, the country has experienced eight major droughts since 2000 (Nicholson, 2014; Palmer et al., 2023). While there is little doubt these climatic shocks adversely affect the performance of the agrifood system, and, therefore, the effectiveness of agrifood system policies and investments in general, it is not evident whether climatic shocks would also alter the prioritization of these policies and investments.

In this country brief, we provide data- and model-driven insights to inform policy discussions on the design and prioritization of agrifood system interventions, considering both the current state of the system in Ethiopia and the emerging risks that threaten its performance, sustainability, and resilience. We systematically evaluate a range of investment options and rank them based on their cost-effectiveness in delivering multiple development outcomes, including agrifood GDP growth, agrifood job creation, poverty reduction, undernourishment reduction, and improvements in diet deprivation. To assess the impacts of these investments on nature capital, we calculate the associated environmental footprints, focusing on water, emission, and land.

We also analyze how these investment rankings shift when the system is exposed to climatic shocks with varying adverse crop yield effects across the agricultural sub-sector (the design of these sensitivity scenarios is informed by observed historical climatic shocks). This additional layer of analysis ensures policy recommendations are not only effective under normal conditions but also resilient to external risks, providing a more robust framework for guiding agricultural investments in Ethiopia.

Results are generated using IFPRI's Rural Investment and Policy Analysis (RIAPA) modeling system (IFPRI, 2023) which uniquely integrates an investment module that translates identified investments

into changes in productivity at the subsector level; a household survey-based microsimulation module that estimates changes in poverty, undernourishment, and diet deprivation; and a newly incorporated environment module that computes environmental footprints, including water, emission, and land. As such, this integrated RIAPA framework provides a comprehensive assessment of investment impacts. The RIAPA modeling system has been widely applied to evaluate the economywide impacts of various public expenditure options across different contexts (Thurlow et al. 2007; Pauw and Thurlow 2015; Benfica et al., 2019; Aragie et al., 2019; Aragie et al., 2024).

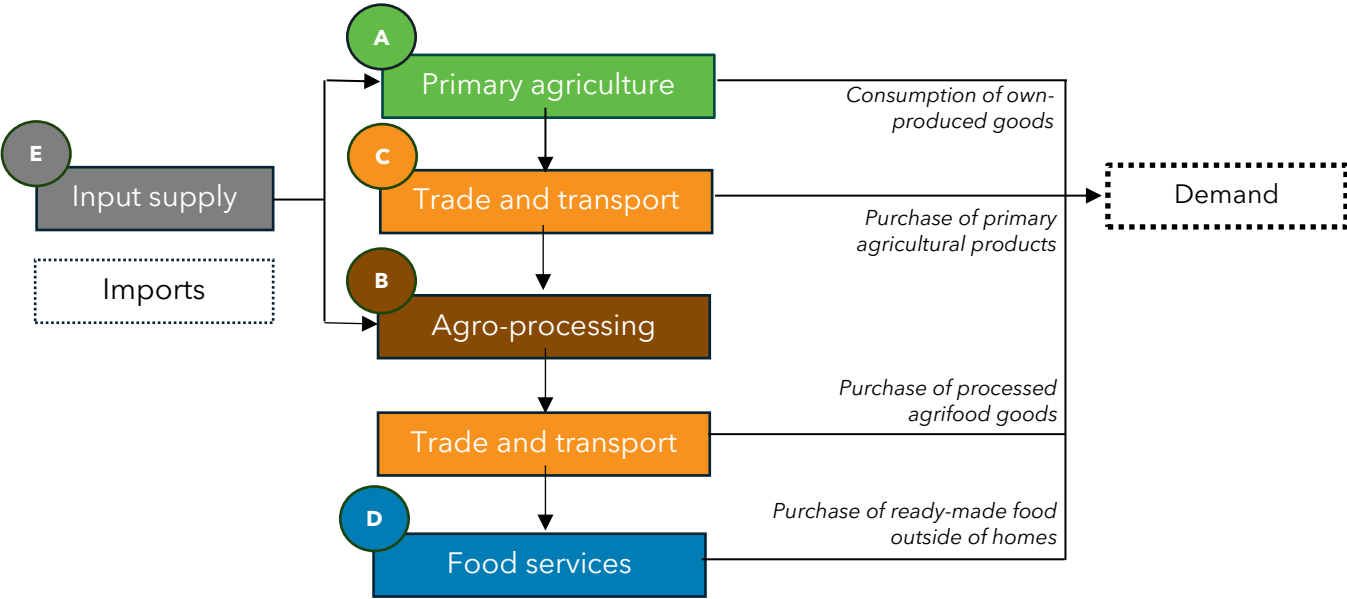
## Country Context

### Structure of Ethiopia's agrifood system

A country's agrifood system involves a complex network of actors linked to each other through their roles in producing, distributing, processing, and consuming primary agricultural and agro-processed products. We measure the agrifood system from a supply-side perspective, leveraging national accounts and employment statistics to directly simulate changes in growth and employment by investment scenarios and over time. By disaggregating the agrifood system into distinct value chain groups and mapping interventions that target improving some of their bottlenecks, this approach provides valuable insights into the key drivers of agrifood system growth and associated environmental impacts in Ethiopia.

Figure 1 presents a simplified conceptual framework of the agrifood system, consisting of five key components labeled **A** to **E** (see Diao et al., 2023). Primary agriculture (**A**) encompasses the supply and demand for all agricultural products, including crops, livestock, fisheries, and forestry products. Agro-processing (**B**) is part of the manufacturing sector and includes subsectors that process agriculture-related food and non-food products. Meanwhile, trade and transport (**C**) involve services related to the transportation, wholesaling, and retailing of agrifood products between farms, firms, and final points of sale. Food services, represented in (**D**), include services such as meals prepared in restaurants, food stalls, or hotels. Finally, input supply (**E**) represents the portion of domestically produced intermediate inputs used directly in agricultural and agro-processing production, such as fertilizers and financial services.

**Figure 1:** A simple conceptual framework of the agrifood system



Source: Diao et al. (2023)

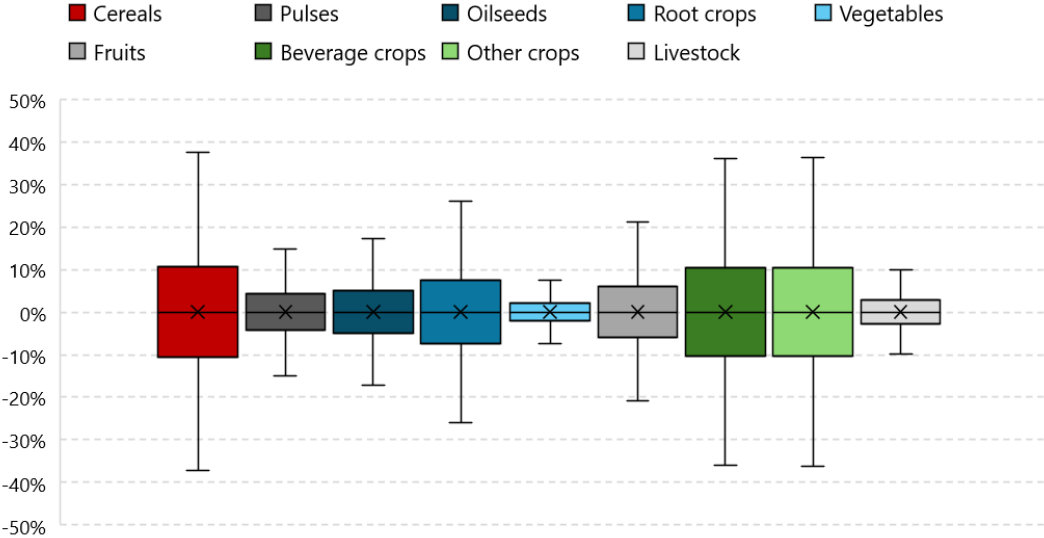
The agrifood system in Ethiopia contributes over 48 percent of gross domestic product (GDP), employing about 77 percent of the workforce (Diao et al., 2023). Primary agriculture is the engine of growth, accelerating by about 6 percent annually over the past two decades (World Bank, 2025) and currently contributing 35 percent of GDP (Diao et al., 2023). With appropriate policy reforms and targeted investments, together with a stable socio-political environment, the sector has the potential to continue its rapid growth and contribute to broader structural change in Ethiopia. Accelerating growth and sustaining high employment levels have long been central development objectives for countries worldwide, and Ethiopia is no exception. With a poverty headcount rate of 23.5 percent in 2015 (World Bank, 2023) and notable concerns about diet deprivation, the Ethiopian government recognizes the formidable challenges it faces, particularly as it strives to achieve economic development and social progress while simultaneously shifting towards a green economy (FDRE 2011, World Bank, 2020).

**Agricultural production variability in Ethiopia**

Given the predominance of rainfed production systems, Ethiopia’s agricultural sector has historically been exposed to weather-related production shocks. These shocks adversely affect the efficacy of technologies; for example, several studies have shown that extreme events can lower the expected yield gains from using modern inputs such as fertilizer and seeds (Shah et al., 2024; Kumar and Maiti, 2024). Historical production estimates for Ethiopia show that cereals and coffee yields fluctuate more than vegetables or oilseed yields (see Figure 2). For instance, production losses during a 1-in-25-year drought event relative to a “normal” year could range between 5.4 and 12.3 percent for vegetables and oilseeds and between 26.8 and 26.0 percent for cereals and beverage crops such as coffee. This variation in yield effect across sectors highlights different degrees of vulnerability of sectors to climatic shocks. Moreover, there is spatial variation both in the severity of drought conditions and sectors distribution in production, both contributing to the national level variation in yield impacts across products. In our

modeling results, we will test the robustness of our investment ranking to climatic shocks using a historical 1-in-25-year drought events as indicative of how such shocks will contribute to sectoral yield losses and alter the impact of investments.

**Figure 2:** Historical production variability for crops and livestock



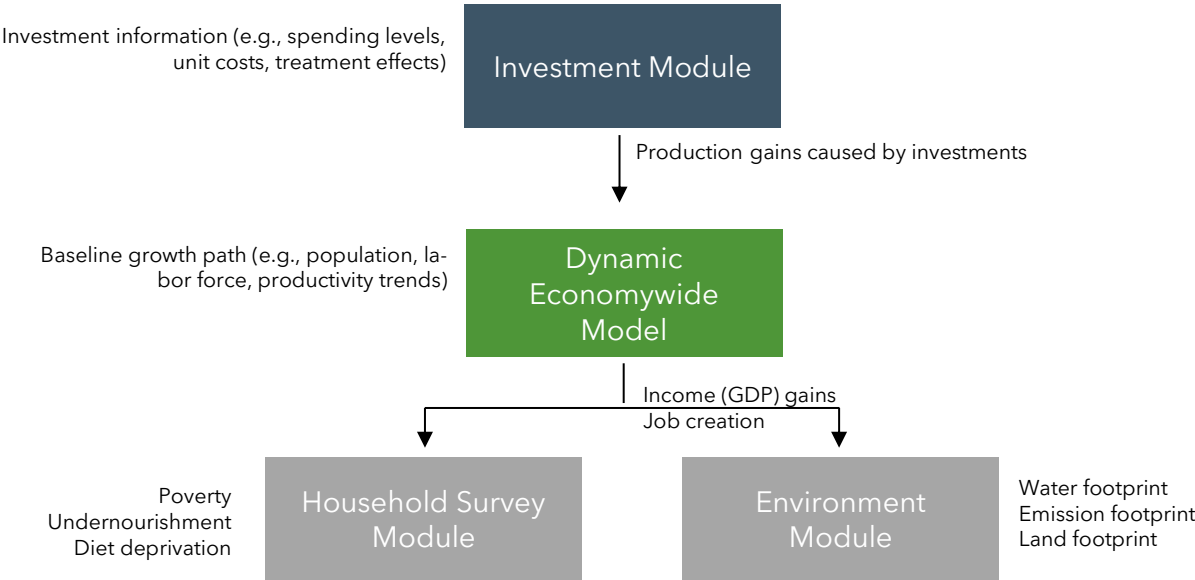
**Note:** The historical variability values are residual fluctuations from the determined production time series for 1990-2021. Cereals, livestock and pulses are the three main contributors of agricultural GDP, with shares of 44, 24 and 10 percent, respectively. Roots and tubers and vegetables follow, contributing nearly 5 percent each.

## Method of Analysis

### Modeling approach

This study estimates the impacts of alternative agrifood system investments on the Ethiopian economy across key outcome indicators, which are categorized as economic, social, and environmental/resource use. We apply IFPRI’s RIAPA modeling system (IFPRI, 2023) which uniquely integrates an investment module that translates identified investments into changes in productivity at the subsector level; a household survey-based microsimulation module that estimates changes in poverty, undernourishment, and diet deprivation; and a newly incorporated environment module that computes environmental footprints, including impacts on water utilization, emission, and land use (Figure 3). This integrated RIAPA framework thus enables a comprehensive assessment of investment impacts.

**Figure 3:** An integrated model for agrifood system investment and outcomes analysis



*The economywide model*

At the core of the integrated RIAPA framework is IFPRI’s standard, recursive-dynamic computable general equilibrium (CGE) model. These models are widely utilized for economic policy formulation and analysis (Dixon and Parmenter, 1996; Devarajan and Robinson, 2010). They capture the interlinkages between sectors, households, and rural-urban economies, making them well-suited for assessing the economywide effects of public policies.

The Ethiopia model is calibrated to a 2022 Social Accounting Matrix (SAM) for the country. This SAM is an updated version of the 2018 SAM (Aragie and Thurlow, 2021). The calibrated model represents the economy through a set of disaggregated sectors, encompassing 30 agricultural sub-sectors, which include 22 individual crops or groups of crops, six livestock production sectors, as well as forestry and fisheries. The model also incorporates 36 industrial sectors—including 17 agro-processing activities—and 12 service sectors, which include food-related areas such as trade, transport, and restaurant services. This detailed representation of both the on-farm and off-farm components of the broader agrifood system permits detailed analysis of agrifood value chains, from primary producers to processors and traders to final consumers.

The Ethiopia model also distinguishes 15 representative households, each of which is an aggregation of a group of households captured in the 2010/11 Ethiopian Household Consumption Expenditure (HCE) survey (CSA, 2012). These households are categorized into rural and urban household groups, with rural households further divided into farm and non-farm groups based on their reliance on agriculture as a primary source of income. Finally, each household group is further disaggregated by per capita expenditure quintiles. In the model, households earn labor income and receive returns on their assets, which include land and capital, as well as domestic or foreign transfers.

The CGE model is used to produce a baseline that follows historical levels of broader economic and sectoral growth, population and labor force growth, and levels of government spending. This “business-as-usual” scenario runs until 2045. All investment scenarios are compared against this baseline.

As will be seen later, the temporal feature of the model allows us to examine how the effects of various interventions change over time.

### *The investment module*

The investment module is used to synthesize data from several sources to measure at a detailed sectoral level the expected productivity gains that can be attributed to a unit of expenditure on each of a range of agricultural transformation investments. The module used in this study is a newly updated version of the framework previously adopted in various contexts (Aragie et al., 2022; Pauw and Thurlow, 2015; Benfica et al., 2019). The previous version of the investment module was elaborated in Aragie et al. (2024). The updated framework separates agrifood system investments in layers depending on whether they are at the knowledge generation stage (upstream: e.g., R&D) or innovation dissemination stage (midstream, e.g., seed system), or at the farmgate level (downstream: e.g., seed application at farmer level). In this study, the investment module tracks 18 individual interventions, with many targeting up to six distinct groups of agricultural sectors.

The investment module structures agrifood investments and processes data on the costs and impacts of interventions across targeted sectors. Specifically, it integrates investment details—such as spending levels, unit costs, changes in adoption rates, and impact coefficients (or marginal effects)—as inputs and generates corresponding productivity gains as outputs. Whereas unit costs measure costs per area of farmland or head of animal, adoption rates refer to the extent to which new technology is implemented, expressed as a percentage of the target area or number of animals. The productivity gains are then transmitted to the economywide model, which endogenously adjust the targeted sectors' productivity levels. Through direct and indirect economywide linkages, these adjustments drive changes in income, prices, employment levels, and other key economic indicators.

Unit costs are usually obtained from the literature and are retrieved from project planning (such as irrigation master plans) or evaluation documents. Baseline adoption rates and coverage levels are obtained from farm household surveys such as the Ethiopia's Agricultural Sample Survey (ASS) 2021-22 (ESS, 2022) which reports the number of farmers with access to certain technologies and practices or the cropland covered by those technologies and practices. Likewise, impact coefficients—which measure the change in productivity resulting from the adoption of a specific technology or practice—can be estimated using these types of surveys or sourced from existing literature. Alternatively, crop models, which simulate how crops interact with their environment and respond to various factors, can provide usable impact estimates for many crops and interventions. Given these fundamental features of sector-investment combinations, the final productivity gains for each sector will be determined by the level of spending on each intervention. In this brief, an equal amount of hypothetical spending for each intervention area is considered for cost-benefit comparison. An actual budget allocation pattern can also be evaluated using spending data from ministries of agriculture or ministries of finance.

### *The household survey module*

While major economic indicators – changes in economic growth and job creation – are directly calculated from the core economywide model, assessing changes in social and environmental indicators necessitates specialized modules. To this end, the CGE model is linked top-down with household

survey-based microsimulation modules measuring changes in poverty, the prevalence of undernourishment, and diet deprivation. Real income changes for different household groups result in diverse effects on these social outcomes.

Changes in poverty are calculated by linking a poverty microsimulation module to the outcome variables of the CGE model—namely, household income, prices, and consumption—following the methodology of Arndt et al. (2012). The changes in real consumption across commodities, observed for the fifteen representative household groups in the RIAPA model, are mapped to the corresponding individual households in the 2010/11 HCE survey (CSA, 2012). The new poverty status is computed for all sampled households. Likewise, the undernourishment model uses the same set of households and measures the change in the share of the population below a certain minimum dietary energy requirement per capita per day.

The process for estimating changes in diet deprivation is similar to that for poverty in that survey households are linked to their respective representative household groups in the CGE model. In this instance, however, modeled changes in real food consumption across six food groups are used to compute changes in the Reference Diet Deprivation (ReDD) index (Pauw et al., 2023), which serves as a multidimensional indicator of a household’s diet quality. ReDD index, which is a deprivation gap measure, quantifies shortfalls in consumption relative to a recommended consumption threshold. A decline in the deprivation gap indicates improvement in overall diet deprivation.

### *The environment module*

The environment module uses information on water, emission, and land intensities of sectors to calculate changes in total water, emission, and land footprints of the economy. These footprints change as the structure or size of the economy changes over time. For instance, the expansion of a water-intensive sector, such as rice, can potentially increase the total water footprint of the cereal sector. However, this shift may also result in resource reallocation—such as the increased availability of cheaper animal feed—which could, in turn, accelerate growth in more emission-intensive sectors like livestock.

The data used to calibrate the environment module come from various sources. Whereas the water footprint data for agricultural sectors come from the Water Footprint Network (Mekonnen and Hoekstra, 2010), this source only reports aggregate water footprints for industrial sectors and municipal water withdrawals. In the absence of sector-specific data, we assume water use is distributed across non-agricultural sectors in proportion to their sectoral output shares. Given our focus on agri-food system investments, this assumption, while crude, has little bearing on our results.

Sectors also differ in terms of their emissions intensities. We use total emission data (in tons of CO<sub>2</sub> equivalent) obtained from FAO (2025) and Climate Watch (2025). FAO (2025) reports total emissions generated in the rice sector, other cereals, and livestock sub-sectors, including milk and meat production. We complement this with global-level estimates of emission per kilogram (CO<sub>2</sub> equivalent) for a comprehensive list of commodities compiled by Poor and Nemecek (2018). Climate Watch (2025) reports emissions generated by major manufacturing and service sectors. The resulting emission coefficients for all sectors included in the Ethiopia SAM are then scaled using the corresponding sector’s output to match total emissions in agriculture, industry, and services.

The land footprint calculation uses the FAO (2025) cropland allocation estimates to calibrate the Ethiopian CGE model. Ethiopia had 15.6 million hectares of land under crop cultivation in 2022, the model base year. In addition to this, we incorporate land use for livestock grazing into the land footprint calculation. FAO (2025) reports over 20 million hectares of grazing land in Ethiopia in 2022. Our modeling analysis assumes total agricultural land expands by one percent per annum. Land use by sector may, however, adjust in line with relative changes in land productivity and output.

## Scenario design

This study assesses the impact of eighteen different investment areas. We assume a marginal increase of \$25 million in spending per year from 2025-2030 for each investment area. The relative effectiveness of each intervention is assessed based on its effect in driving different development outcomes by 2045. To bring future returns to their current equivalent for comparability reasons, we discount the future impacts using a discount rate of 4%. Investments are grouped into five broad types of interventions: (i) research and development (or R&D), (ii) extension and advisory services, (iii) markets and food systems, (iv) risk reduction and resilience, and (v) infrastructure. Annex Table 1 includes a detailed list of interventions considered. In short, the interventions include the following:

- R&D investments contribute to the development of improved seed varieties, productive agronomic practices, animal breeds, and animal husbandry.
- Extension and advisory services promote the adoption of improved seeds, agronomic practices, livestock inputs (e.g., feed and vaccines), and climate-smart agricultural practices.
- Markets and food system investments are designed to strengthen seed systems, enhance the productivity of small and medium enterprise (SME) processors and traders through access to finance and training, reduce food loss and waste, or improve access to credit.
- Risk reduction and resilience interventions support better decision-making by agrifood system actors by providing early warning information, climate forecasting, and productive safety nets.
- Infrastructure investments raise overall value chain productivity through expanding irrigation schemes or feeder roads that connect farmers to input and product markets.

Calibration of the investment module requires a range of data inputs for each of the eighteen investment areas. These include adoption rates (or coverage rates), which specify the number of farmers that use a specific technology or service or the area of land on which technology is applied, as well as yield gains from utilizing those technologies or services. Baseline rates of technology adoption and service coverage rates were obtained from farm household surveys. Productivity impacts of the respective interventions across the targeted sectors are derived from impact evaluation documents and crop and livestock models. Ethiopia's ASS 2021-22 (ESS, 2022) is specifically used to estimate adoption and coverage rates for the various technologies and practices modeled in this analysis. The survey shows high fertilizer adoption in cereal production at over 71 percent of cropland, followed by horticulture at 45 percent. Coverage is the least among cash crops such as coffee, tea, and cotton. Likewise, improved seed adoption is the highest for cereals (24 percent). IFPRI's crop model (IFPRI, 2024) is used to estimate yield gains from adopting different farm practices. For Ethiopia, the model reveals stronger cereal yield effects from irrigation infrastructure, followed by information on planting windows and the adoption of improved seeds. These investment module parameters,

alongside measures such as value-added and output prices, are important determinants of the returns on investments in different technologies or services.

Investment unit costs measure the financial cost of expanding input coverage (e.g., increasing irrigated land by one hectare). These are primarily sourced from impact evaluation studies, sector development plans, and existing literature. A key enhancement in this version of the investment module, compared to its most recent predecessor described in Aragie et al. (2024), is its ability to track the time lag between investment spending and its eventual impact (e.g., for rural roads or irrigation projects that take a number of years to become operational) as well as the duration of that impact (this accounts for depreciation or time-bound interventions). This distinction is crucial, as some investments yield one-time effects while others generate sustained benefits over multiple years.

The agrifood system in Ethiopia is historically exposed to production shocks that can reduce the efficiency of technologies and practices. An alternative situation of a permanent decline in yield gain from a 1-in-25-year drought is also considered to test how the rankings of interventions change by 2045 when the system is faced with large climatic shocks.

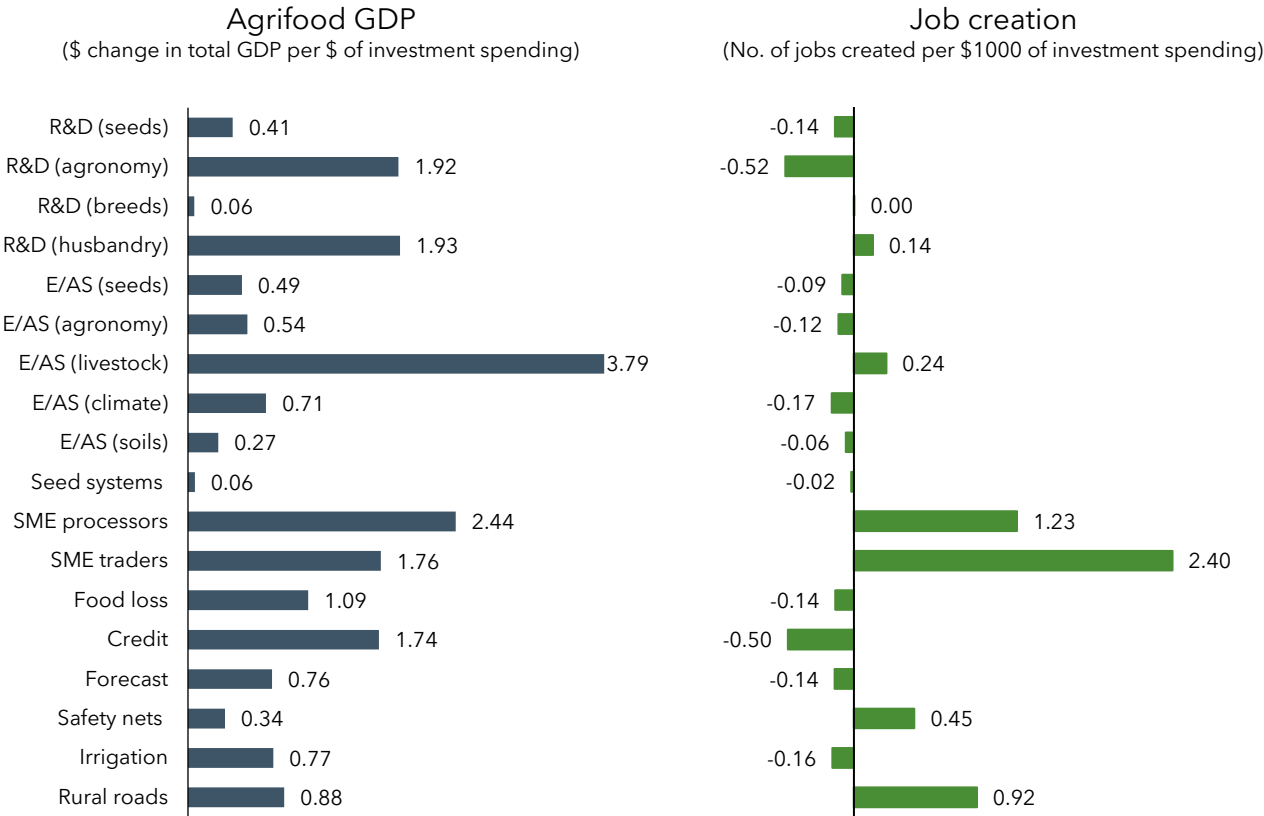
## **Cost-Effective Investment Options for Inclusive and Sustainable Transformation**

### **Comparing the impacts of investments**

We start our comparison of investments based on their impact on two standard economic outcomes: agrifood growth and job creation. These outcome indicators are directly obtained from the economywide model (see Figure 3). Results are reported in Figure 4. These reveal relatively stronger growth effects from investments in livestock, SME processors and traders, improved agronomy practices, and access to credit to agrifood system practitioners. Specifically, each additional dollar spent on livestock extension and advisory services generates an additional \$3.79 in agrifood system GDP, compared to around \$2.44 for SMEs. Spending on agronomy and animal husbandry R&D also yields economywide benefits equal to almost twice the cost.

Job creation remains an important development challenge for most developing countries, including Ethiopia, especially given the continued rapid increase in the working-age population. Notably, model results highlight SME traders related interventions as the most effective, generating 2.40 additional jobs per \$1000 invested due to their strong backward and forward linkages across the economy. Infrastructure development, particularly rural roads, also emerges as a priority investment for job creation. However, some interventions—such as R&D in agronomy and food loss and waste reduction—exhibit marginally negative employment effects. This is because productivity gains from these investments enable higher output with fewer inputs, potentially reducing labor demand in certain sectors.

**Figure 4:** Comparison of investments based on their cost-effectiveness on economic outcomes



**Source:** RIAPA modeling system

The three social indicators considered in this study are the poverty headcount, prevalence of under-nourishment, and quality of household diets. These are obtained from the various household survey-based microsimulation models incorporated into the RIAPA framework. Results show that investment areas differ in terms of their effectiveness in driving these outcomes (Figure 5). SME interventions have the largest impact on poverty and undernourishment, which is partly explained by the strong GDP effects of these interventions and the employment linkages of SMEs to lower-income households. Productive safety nets are also important for reducing poverty, while R&D in agronomy, access to credit, and investments in rural roads have only moderate effects on poverty.

While the poverty effects are all somewhat correlated with the growth effects, the correlation between growth and undernourishment is weaker. R&D in agronomy and access to credit emerge as the most effective interventions in driving reductions in undernourishment. In contrast, livestock-related interventions may worsen undernourishment as the livestock sector drives up the cost of cereals that are used as feed but are also an important source of calories. Livestock interventions do, however, have the strongest positive effect on diet quality. Additionally, R&D in agronomy, investments in SME traders, and food loss and waste reduction contribute to greater improvement in diet deprivation by enhancing productivity and improving access to food products—particularly fruits and vegetables, which are often lacking in household diets.

**Figure 5:** Comparison of investments based on their cost-effectiveness on social outcomes



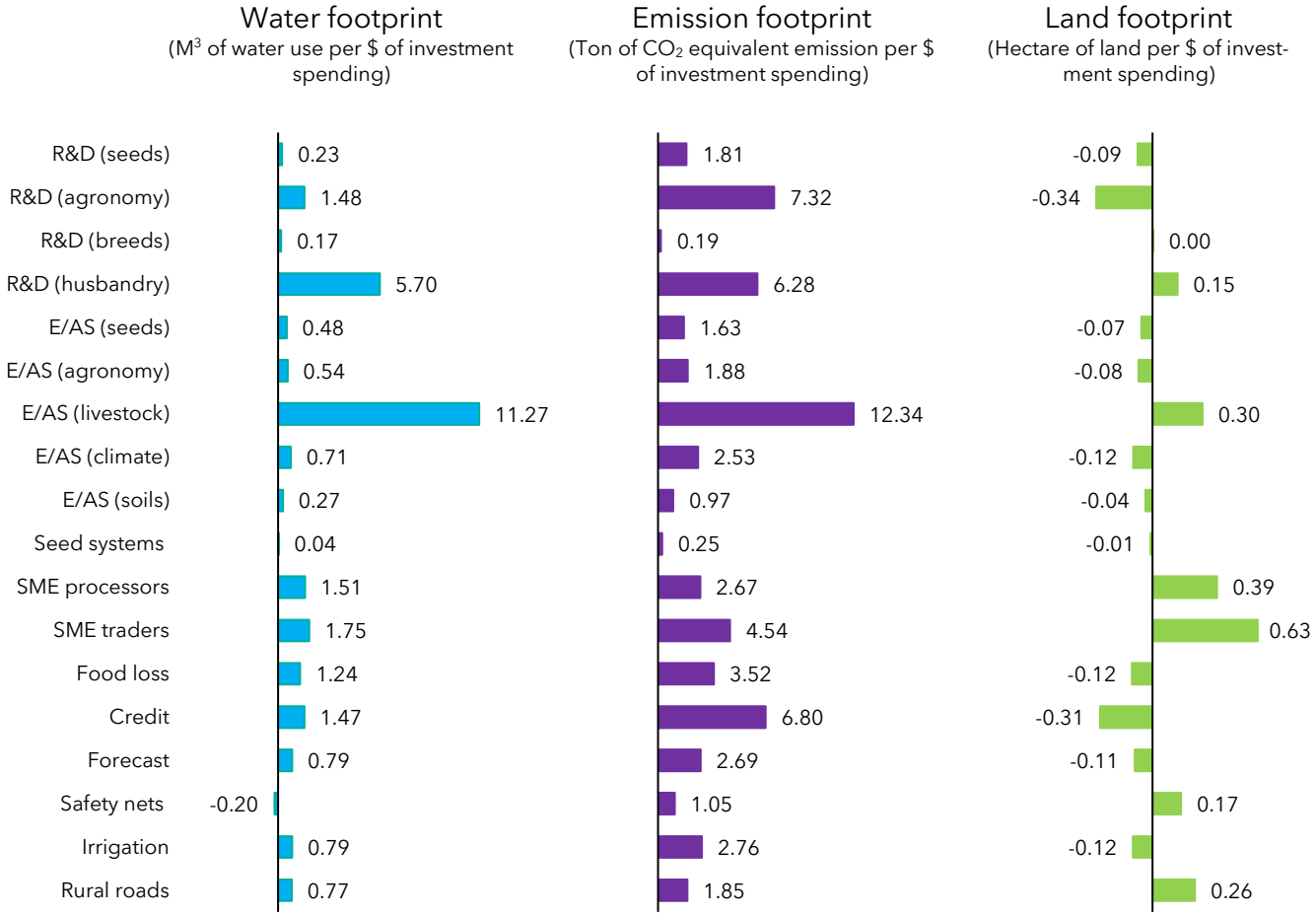
Source: RIAPA modeling system

We also evaluated the various investments based on their resource use or environmental impacts, looking specifically at changes in the economywide water, emissions, and land footprints. The changes in environmental footprints associated with investments will depend on the initial resource intensity of sectors the interventions target, changes in sectoral activity as a result of the interventions, and any indirect adjustments in the economy outside the targeted sector due to economywide linkage effects and changes in resource reallocation. The basic principle here is that increases in environmental footprint per dollar of spending are undesirable.

Results from the environment module show investments in livestock, including R&D in animal husbandry and extension services to livestock producers, consistently rank among the highest across the environmental indicators, underscoring the resource intensity of the sector (Figure 6). Off-farm investments in SMEs, food loss and waste reduction, access to credit, and R&D in agronomy lead to a greater increase in emissions, as these interventions promote production in sectors with higher emissions footprints. Figure 6 also shows a stronger economywide water use effect from interventions in R&D agronomy, credit access, and SME traders and processors. Investment in irrigation infrastructure is arguably one of the interventions with a stronger water footprint effect, specifically by promoting the expansion of sectors with irrigation practices.

Whereas all interventions cause increases in water and emission footprints at economywide level, land footprints show movements in both directions depending on the change in economywide demand for land due to these investments. Land footprint increases (i.e., more land put under cultivation) when invested in livestock, SME processors and traders, safety nets, and rural roads. These increases in land footprints are likely due to additional opportunities for land-intensive sectors to grow as the economic opportunities change. For example, expansion in SMEs creates demand for outputs of upstream sectors as intermediate inputs, requiring more land, labor and capital to be allocated for production. By contrast, R&D in agronomy, extension services in climate information systems, food loss reduction and irrigation help release agricultural land, creating a possibility for environmental regeneration. For example, irrigation infrastructure enhances land productivity, enabling more output from a smaller area and potentially allowing some land to be taken out of agricultural production.

**Figure 6:** Comparison of investments based on their cost-effectiveness on environmental footprint



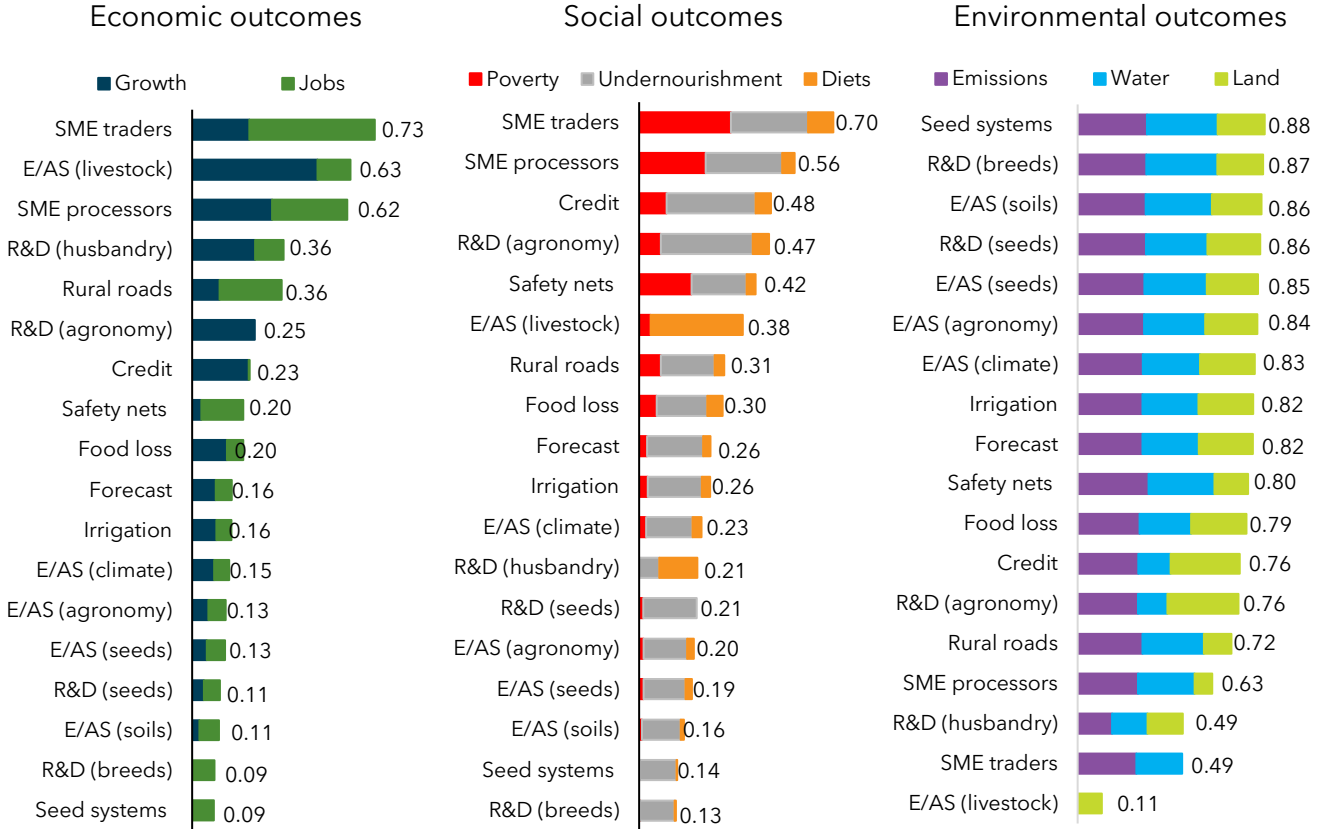
Source: RIAPA modeling system

## **Composite score of investments by their impact on selected outcome indicators**

As presented in the preceding section, investments were ranked by their impacts on a long list of outcomes, grouped into economic, social, and environmental dimensions. We noted from the results that no single intervention was ranked top across all outcomes and that we witnessed potential tradeoffs across these indicators. In this section, we construct composite scores of the interventions by their impact on each group of outcomes. This is done in steps. First, we normalize the intervention scores for each outcome, attaching a value of 1 to the most cost-effective and 0 to the least cost-effective. Second, we then attach equal weights to each outcome in a group. Third, we sum up the weighted scores of the outcomes for each intervention to use it for ranking the interventions based on their overall impact. For example, when creating the composite score for the interventions based on their overall economic outcome, an equal weight - 50 percent each - is attached to growth and job creation, assuming equal preference by policymakers for these outcomes. Finally, for each intervention, we sum the weighted scores for growth and job creation to produce an overall score, which is then used to rank all interventions.

Figure 7 ranks investing in SME traders and processors as the most cost-effective option for jointly expanding agrifood system GDP and employment, with the employment indicator contributing to most of the change in this combined indicator for economic outcomes. Providing credit and livestock extension/advisory services are the most cost-effective farmer-facing investments, mainly driven by faster growth in agrifood system GDP. Amongst R&D investments, animal husbandry and agronomy appear more cost-effective regarding their impact on economic outcomes than improved seeds and animal breeds. Providing productive safety nets and climate forecasting are among the more cost-effective resilience investments.

**Figure 7:** Composite scores on economic, social, and environmental outcomes by investment area



Source: RIRPA modeling system

Figure 7 further reports composite scores of interventions based on their overall impacts on social outcomes, summarizing their effects on poverty headcount, prevalence of undernourishment, and diet deprivation. The overall impact is constructed by summing together each indicator’s normalized score assuming equal weights. Similar to the economic outcome scores, investing in SME traders and processors ranks as the most cost-effective option for achieving greater progress in all social outcomes combined. At the same time, safety nets and credit also rank highly.

The last panel in Figure 7 reports the composite score of the interventions based on their overall effects on the three environmental indicators, namely water, emission, and land footprint. Interventions with greater GDP effects tend to have undesirable environmental outcomes, demonstrating an important tradeoff between economic growth and environmental impacts. Livestock-related investments such as farmer-facing extension services and upstream R&D in husbandry appear the most resource-intensive, mainly due to their high water use and emission per unit of output. Market and food system investments such as spending on SME traders and processors, credit packages, and food loss and waste reduction are among the most resource-demanding spending options. By contrast, most farmer-facing interventions such as extension and advisory services on seed, agronomy, and soil management have the least environmental footprint effect, mainly due to limited effect on the economy (see Figure 4 above).

Traditionally, policymakers would have based policy decisions primarily on economic and social dimensions. To create a composite ranking of the investments, these two dimensions are combined, attaching 50 percent weight to each and reported in Figure 8. This clearly illustrates the synergies and tradeoffs across investments as far as these two outcomes are concerned. The composite score puts investing in SME traders and processors at the top, with both the economic and social outcomes contributing equally. Upstream interventions such as R&D in agronomy and systemic interventions such as credit access and safety nets rank as cost-effective in generating overall gains within the agrifood system. However, interventions with greater economic and social outcomes tend to be most resource-using, implying some tradeoffs. In Figure 8, interventions with red markers have a high environmental footprint, those with orange markers have a medium level environmental footprint, and those in green have a lower footprint. This grouping of interventions by their environmental impact is determined by first calculating their Z-scores and then identifying those with the highest and lowest impacts as outliers from the data using a specified standard deviation threshold. The tradeoff between economic and social impacts, on one hand, and environmental impact, on the other, highlights the need to improve the resource-use efficiency of interventions that yield strong economic and social benefits.

These two dimensions - economic and social - remain important and may still dominate decision-making in many countries. However, a broader agrifood systems approach requires policymakers also to consider the environmental footprint of their policy or investment choices. Figure 8 shows most farmer-facing interventions such as extension and advisory services on inputs rank as the least cost-effective although they generate the least environmental footprint principally because of overall weaker impacts on production, revealing stronger tradeoffs between the previous two outcomes and the environmental footprint indicator.

**Figure 8:** Composite scores on economic and social outcomes by investment area



**Source:** RIAPA modeling system

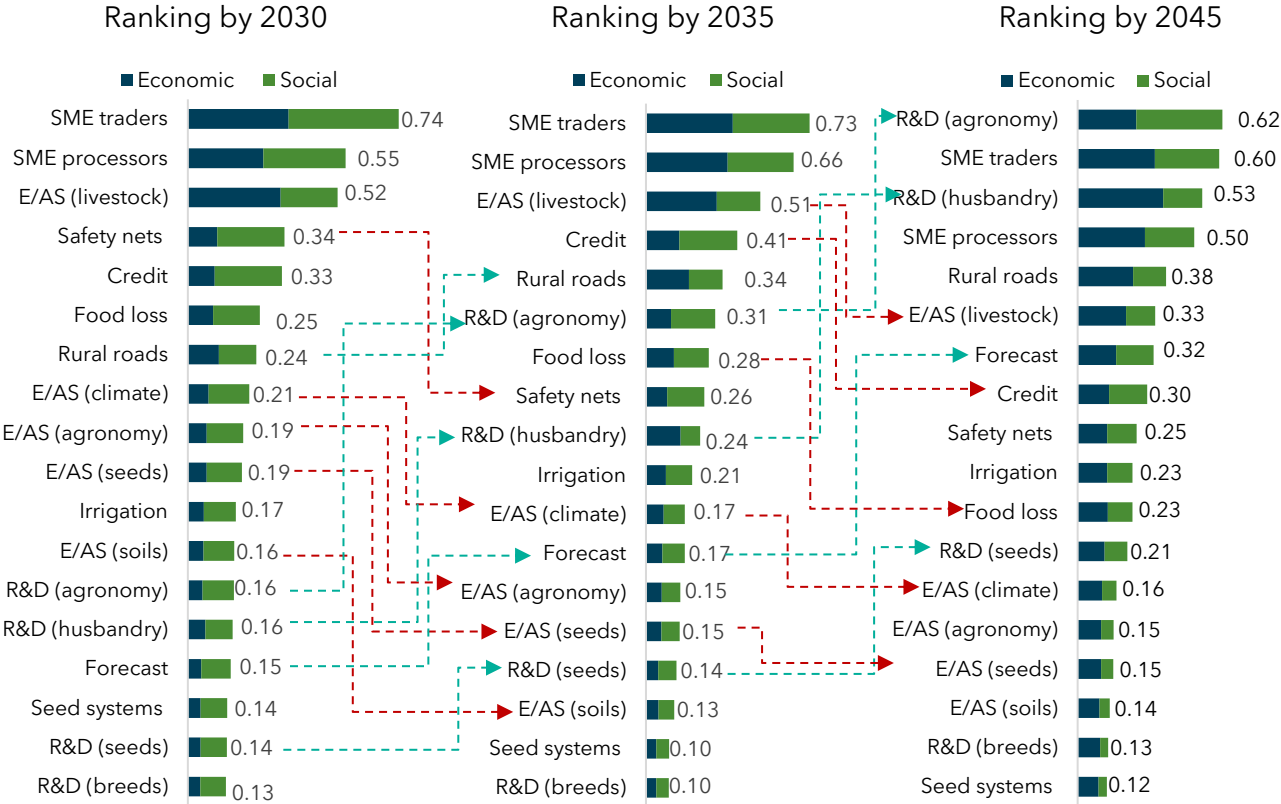
### Do the rankings change over time?

The previous section compares the investments by the end of the simulation period, i.e., 2045. Given differences in the lag time between when a particular investment is made and when it starts having an impact on economic and social outcomes, it is of interest to consider whether investment priorities change depending on the time horizon of the policymaker. Notably, most politicians or line ministries in governments may have a shorter time horizon (i.e., matching the typical 4-5 years of the political cycle). In contrast, national planners may have much longer planning horizons (often several decades). The modeling framework adopted in this study accounts for these time delays between when an investment is made and its effect materializes. This section assesses the magnitude of changes in composite scores by investment area over time. We specifically compared the rankings by 2030, 2035, and 2045 (Figure 9).

Our model results indicate that R&D-related investments in seeds, agronomy, and husbandry become increasingly cost-effective over time as their lagged but long-term impacts materialize. In contrast, market- and food system-related investments, such as support to SMEs and food loss and waste reduction, show a rise in effectiveness by 2035 compared to 2030 but a decline in impact in later periods. Meanwhile, the relative effectiveness of recurrent farmer-facing investments such as

extension and advisory services on seeds, agronomy, livestock, and soils gradually declines as benefits of larger, one-off investments start accumulating in future periods.

**Figure 9:** Changes in rankings over time



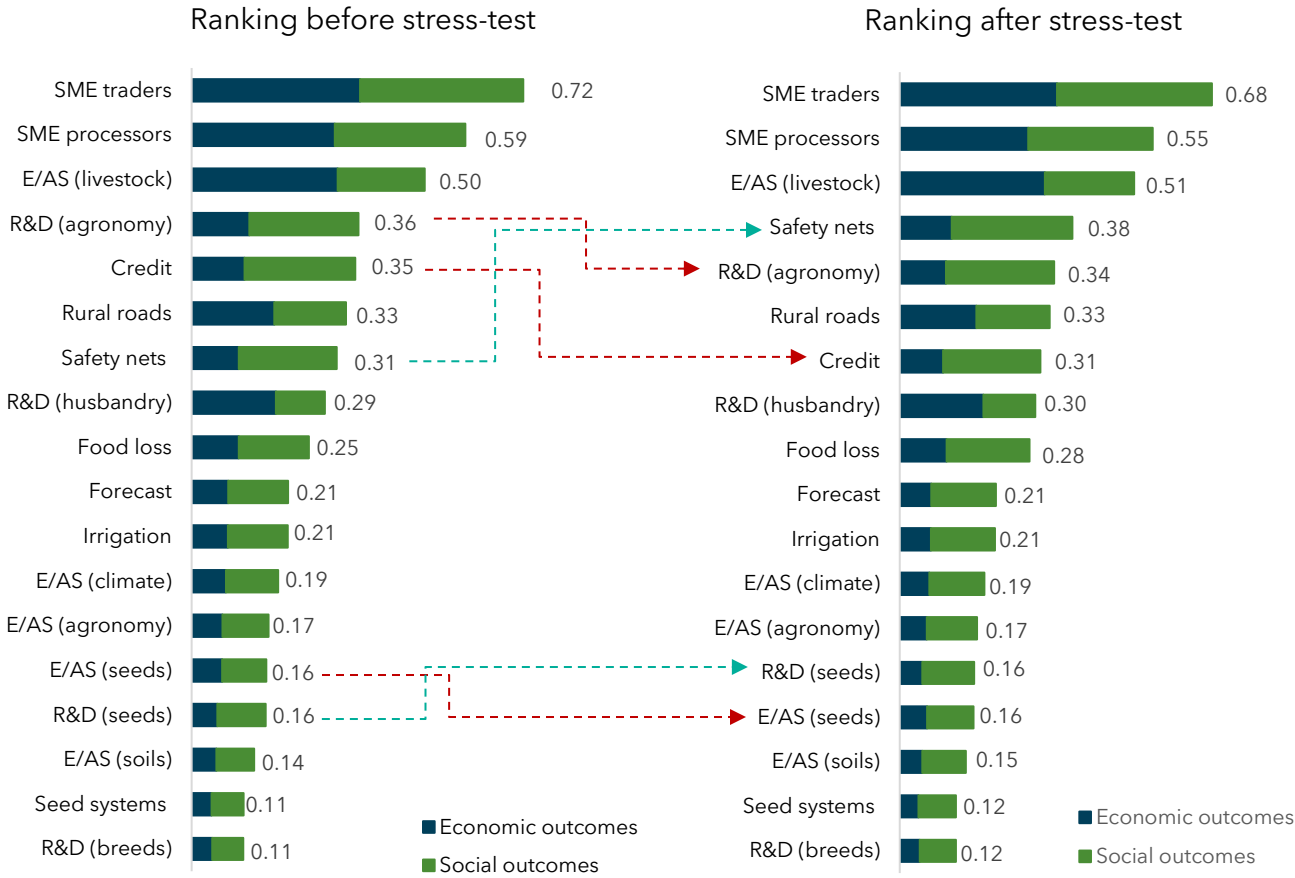
Source: RIAPA modeling system

**Stress-testing of investments**

This section reports on how investment rankings might change when a 1-in-25-year drought shock slashes yield gains throughout the simulation period (2025-2045). Of course, climatic shocks are unanticipated events, and so these simulations should not necessarily influence policymakers’ decisions, but they do shed light on the robustness of the ranking results. As shown in Figure 10, the rankings without and with the climatic shock (or stress-test) are remarkably similar. Investments in SME traders and processors remain at the top of the list, perhaps because the market and downstream food system actors targeted by these investments are only affected indirectly by on-farm production losses and can pass cost increases on to consumers.

However, the cost-effectiveness of R&D investment in agronomy falls slightly. The relative cost-effectiveness of farmers’ access to micro-credit also declined modestly. By contrast, safety nets, which directly target households, move up in the ranking during climatic shocks, as this becomes an effective way to improve social outcomes during periods when real household incomes fall sharply due to farm income losses or rising food prices.

**Figure 10:** Rankings of interventions after stress-testing



Source: RIAPA modeling system

### Unpacking priorities by sub-sector

In the previous sub-sections, we present the cost-benefit rankings of interventions that also target various sub-sectors. For example, food loss reduction measures can focus on cereals, cash crops, or root crops. In this section, we consider a dual approach and provide a much deeper analysis of the ranking of interventions based on the sectors they target. The investment-sector combinations are compared using their normalized composite scores using their effects on economic and social indicators (Table 1).

The blue-shaded cells in Table 1 identify value chains or sectors where the impacts of a given intervention exceed the overall average impact score of the cross-cutting investment. For instance, the composite score for R&D in improved seeds is relatively low - at 0.18 - when the intervention’s impact is evaluated across all targeted sectors. However, its impact on cereals is well above this cross-cutting average for cereals, at 0.24. Meanwhile, the green-shaded cells denote sector-investment combinations ranked among the top five in terms of potential impact. These indicate priority areas where targeted investment could substantially enhance the overall performance of the cross-cutting intervention. As such, although R&D in improved seeds for cereals shows above-average impact relative to the cross-sector score, it does not fall within the top five intervention areas. Conversely, R&D in agronomy for cereals and horticulture not only exceeds the average impact score but also includes such investments in cereals among the top five investment priorities. Furthermore, Table 1

suggests that concentrating food loss and waste reduction efforts on pulses and oilseeds, horticulture, and cash crops—as well as expanding irrigation access for horticultural producers—would significantly improve the effectiveness of agrifood system investments. Supporting SME processors and traders also remains one of the top cross-cutting interventions in terms of its impact on social and economic outcomes.

**Table 1:** Composite scores by investment area and crop sector

			Cross-cutting	Cereals	Root crops	Pulses and oilseeds	Horticulture	Other cash crops
R&D	1	R&D (improved seeds)	0.18	0.24	0.14	0.14	0.14	0.14
	2	R&D (agronomy)	0.35	0.50	0.23	0.20	0.34	0.29
	3	R&D (animal breeds)	0.14					
	4	R&D (animal husbandry)	0.26					
Extension / advisory services	5	E/AS (improved seeds)	0.21	0.19	0.16	0.29	0.28	0.26
	6	E/AS (agronomic practices)	0.22	0.20	0.17	0.23	0.32	0.30
	7	E/AS (livestock)	0.39					
	8	E/AS (climate information)	0.24					
	9	E/AS (climate smart agriculture)	0.18	0.17	0.15	0.17	0.23	0.22
Markets and food systems	10	Seed systems	0.14					
	11	SME processors (finance, training)	0.52					
	12	SME traders (finance, training)	0.60					
	13	Food loss and waste	0.29	0.23	0.19	0.42	0.54	0.52
	14	Credit access (financial inclusion)	0.34					
Risk reduction and resilience	15	Seasonal forecast (early warning)	0.22					
	16	Productive safety nets	0.29					
Infrastructure	17	Irrigation infrastructure	0.23	0.22	0.19	0.18	0.40	0.37
	18	Rural roads	0.33					

Source: RIAPA modeling system

## Summary

Ethiopia’s agrifood system is an important source of livelihood for households, an engine of economic growth, and a key sector of employment, particularly in rural areas. Despite encouraging progress, Ethiopia has an urgent need to transform its agrifood system sustainably. This requires increased levels of technical and financial support to agriculture and allied sectors. Policymakers can benefit greatly from data- and model-driven insights on the impacts of agrifood system investments on economic, social, and environmental outcomes, including for different planning horizons and under conditions of uncertainty and risk. In this country brief, we report results from a systematic evaluation of a range of agrifood system investment options. We rank investment choices based on their cost-effectiveness in delivering multiple development outcomes, including agrifood GDP growth,

agrifood job creation, poverty reduction, undernourishment reduction, and improvements in diet deprivation. We also considered the environmental implications of these investments, focusing on water, emissions, and land footprints.

Model results reveal that investments in small and medium enterprise (SME) traders and processors are shown to be the most cost effective at driving improvements in social outcomes, like poverty and undernourishment, and are also highly ranked in terms of expanding agrifood GDP and employment. Extension services for livestock, credit for farmers, R&D (agronomy), and safety nets also rank highly. However, many investments that are cost-effective have relatively high environmental footprints, highlighting the tradeoffs between development outcomes and the environment. The analysis reveals only slight changes in the ranking of agrifood system investments under climatic shocks, which suggests the ranking is robust.

Several general policy messages can be drawn from this analysis. Firstly, not only have we demonstrated that integrating data- and model-driven insights into policy and investment prioritization decisions is feasible, but it is also important to do so given synergies and tradeoffs across these investments on development outcomes. Secondly, considering the environmental implications of policy and investment decisions is critical to ensure that the adverse effects of climate change or environmental degradation do not fall disproportionately on future generations of poor people. Our analysis highlights the importance of designing appropriate climate adaptation and mitigation policies to help increase the productivity and resource use efficiency of sectors identified as drivers of socioeconomic progress.

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**Annex Table 1:** List of investment scenarios considered

Broad category	Number	Scenario	Description
<b>Research and development (R&amp;D)</b>	1	R&D (improved seeds)	R&D into improved seed development
	2	R&D (agronomic practices)	R&D into improved agronomic practices
	3	R&D (animal breeds)	R&D into improving breeds
	4	R&D (animal husbandry)	R&D into improved husbandry practices
<b>Extension / advisory services</b>	5	E/AS (improved seeds)	Advising improved seed use
	6	E/AS (agronomic practices)	Advising improved agronomic practices
	7	E/AS (livestock)	Advising improved livestock handling
	8	E/AS (climate information)	Providing climate information system
	9	E/AS (climate smart agriculture)	Advising on climate smart practices
<b>Markets and food systems</b>	10	Seed systems	Extended seed system
	11	SME processors (finance + training)	Finance and training for SME processors
	12	SME traders (finance + training)	Finance and farming for SME traders
	13	Food loss and waste	Food storage and transport
	14	Credit access (financial inclusion)	Micro-credit access for farmers
<b>Risk reduction and resilience</b>	15	Seasonal forecast (early warning)	Seasonal weather forecast
	16	Safety nets	Productive safety nets for the poor
<b>Infrastructure</b>	17	Irrigation infrastructure	Small and medium scale irrigation
	18	Rural roads	Unpaved feeder roads

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