SUMMARY

Annual Action Programme 2018 – Part 2 in favour of the Federal Democratic Republic of Ethiopia

1. Identification

EDF allocation	**11^{th} European Development Fund (EDF)**
Total cost	**EUR 80 000 000** (EU contribution) The "Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia (Blending for electrification" will be EUR 35 000 000 of EDF funds; expected Financial Institutions' (FI) contribution: EUR 372 000 000. The contribution to the "Promotion of Sustainable Ethiopian Agro-industrial Development (PROSEAD)" will be EUR 45 000 000 of EDF funds. Expected third-party contributions from development partners and FIs: EUR 167 880 000.
Basic act	Council Regulation (EU) 2015/322 of 2 March 2015 on the implementation of the 11^{th} European Development Fund

2. Country background

The two themes covered by the Annual Action Programme will respond to the energy and to the industrialisation strategies of Ethiopia.

Ethiopia is a landlocked country and second most populous country in sub-Saharan Africa (after Nigeria), with an estimated population of 101 million. Ethiopia plays an important role as a source of stability in an unstable and conflict-afflicted region. The position of Ethiopia as a strategic partner for the EU in the Horn has been recognized by the signing of the **EU-Ethiopia Strategic Engagement** in June 2016. However, internal tensions have increased due to both lack of political and economic inclusiveness.

Since the 2005 elections, the country has witnessed a progressive erosion of political freedoms and human rights. **Political and ethnic tensions** increased since 2015, notably in the Oromia and the Amhara regions. The underlying concerns are lack of democratic space and participation, unequal distribution of wealth, and malfunctioning federal mechanisms. Under the State of Emergency (10/2016 to 08/2017) tens of thousands of people were arrested and there were increased concerns about human rights violations. In February 2018 the Prime Minister resigned and the State of Emergency was re-imposed, with continued protests and episodes of violence. The election of Prime Minister Dr Abiy Ahmed in April 2018 has however raised new hopes of political and economic reforms.

Ethiopia has made remarkable **economic progress**. Its broad-based growth averaged 10.5 % a year from 2005-2006 to 2015-2016, compared to a regional average of 5.4 %. The service sector accounts for the highest growth (15 %), agriculture for more than 8 %, and industrial development doing less than expected (10 % instead of the foreseen 11-18 %). The economy is strongly marked by agriculture, which contributes 36 % to the Gross Domestic Product (GDP) and employs close to 70 % of the population. However, most agricultural activities are performed by small-scale and family entities marked by low productivity and output, and the sector is highly vulnerable to climate change.

Foreign direct investment has increased from less than USD 820 million in 2007-2008 to 3.2 billion in 2015-2016. However, firms are seriously constrained by administrative burden, poor logistics, lack of forex access, inadequate domestic supply of raw material inputs, and lack of suitable skills among the work force. Ethiopia remains close to the bottom of the Ease of Doing Business (161 out of 190 countries in 2016); the Global Competitiveness Index (109 out of 140 countries in 2016); the Transparency International Corruption Perceptions Index (103 of 168 countries in 2015); and the Economic Freedom Index (148 out of 178 countries in 2015).

The Government of Ethiopia's development strategy, the **"Growth and Transformation Plan II"** (GTP II), which is complemented by the Climate Resilient Green Economy Strategy, focuses on infrastructure, industry, the participation of the private sector, a stable macroeconomic environment, good governance and access to quality social services – to be achieved in an environmentally sound manner. It stresses the willingness to make the country a leader in light manufacturing in Africa, mainly by developing **import substituting and export oriented industries**, promoting domestic private sector development and supporting human capital development. This strategy should also contribute to tackling **unemployment**, which is particularly high in urban areas and a major economic and social challenge (over 2 million young people entering the job market every year). With a large informal sector as the most important source of employment for the growing population, job quality remains a concern.

Ethiopia remains a least developed country (LDC) with a per capita income of USD 660 and ranking 174/188 in the 2016 UNDP Human Development Index. Despite significant progress in child mortality, exposure to hunger and school enrolment, the country is still facing important challenges in **maternal mortality, nutrition and gender**. The population still largely dependent (85 %) on low-productive rain-fed agriculture, with a high chronic malnutrition rate (44 % stunting for under-five year olds) and a high maternal mortality rate (676 per 100 000 live births). Other challenges are the recurrent food insecurity following periods of drought and in the maintenance of productive agricultural and water supply due to the **deterioration of the environment**.

The year 2017 saw another major drought in Ethiopia. Half a million people are displaced because of the drought, and **8.3 million Ethiopians are expected to be in need of emergency assistance** –despite the Ethiopian Social Safety net (PSNP) which covers 7.9 million people. In addition to the drought, the South and South-East of the country are also affected by the conflict between Oromia and Somali Region which has flared up since September 2017. Over 1 million people have been displaced because of the violence. The Humanitarian appeal presented by the Government of Ethiopia for 2018 amounts to USD 1.6 billion for a caseload of 7.88 million persons.

Ethiopia, which currently hosts nearly 900 000 refugees, is one of the focus countries for the roll-out of the **Comprehensive Refugee Response Framework (CRRF)** as set-out in the New York Declaration on Refugees and Migrants. The Ethiopian Government has made a major policy shift in the refugee response and now seeks to increase refugee self-reliance by gradually allowing for inclusion of refugees into socio-economic structures outside camps.

Revision of the Refugee Proclamation is required to implement these pledges and its adoption is still pending.

3. Summary of the Action Programme – Part 2

<u>Action 1:</u> "Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia (Blending for electrification)"

Through the blending mechanism, this Action aims at promoting investments in sustainable inclusive and affordable energy access in Ethiopia.

The electricity generation capacity installed in Ethiopia is currently 4 256 MW[1] (90 % from hydroelectric plants) to serve a country with 105 million inhabitants with high economic growth and a rapidly growing electricity demand expected to triple between now and 2025. Although geographic coverage of the grid is estimated to have reached 60 % of the towns and villages in the country, the actual access to electricity for households is very low. Recent estimates of electricity access based on the Multi-Tier Framework approach suggest that[2] 44 % of the population have access to at least basis electricity service (tier 1 and above) of which 15 % are off-grid solutions in tier 1 and 2 with very low electricity availability requirements. This leaves more than half of the households (56 %) with no or insufficient access to electricity.

The ability of Ethiopia to achieve the status of climate-resilient middle-income country with no net growth in greenhouse gas emissions by 2025 (as set up by the Climate Resilient Green Economy strategy) is constrained by current challenges in the power sector.

The overall objective of this blending Action is to support the implementation of Ethiopia's Climate Resilient Green Economy strategy. The specific objective is to promote investments in sustainable inclusive and affordable energy access. In particular, under this Action two different types of operations are envisaged to be supported through the blending mechanism: infrastructure investments to support electrification and support private investment in off-grid electrification. The expected results are an increased access to electricity and an increased power production from renewable sources.

The Action is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the achievement of SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy for all, but also promotes progress towards SDG 1: End poverty in all its forms everywhere, SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, SDG 13: Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.

The Action will be carried out through blending in the framework of the Africa Investment Platform (AIP) as part of the EU External Investment Plan, which seeks to mobilise investment and leverage funds in EU partner countries in Africa and the Neighbourhood region and in particular facilitate investments by private sector investors. Projects will be selected according to the Africa Investment Platform (AIP) award procedure.

[1] Ethiopian "National Electrification Programme", November 2017.

[2] "Ethiopia Beyond Connections – Energy Access Diagnostic Report Based on the Multi-Tier Framework", World Bank 2018.

<u>Action 2:</u> "Promotion of Sustainable Ethiopian Agro-Industrial Development (PROSEAD)"

This Action will contribute to the expansion of inclusive economic opportunities as Ethiopia transitions from an agricultural economy to a more industrial one.

This Action contributes to the Government of Ethiopia's Second Growth and Transformation Plan (2015-2020) to support the transformation of the economy from a predominantly agrarian one to a more industrially oriented economy.

PROSEAD was identified via an EU-led inclusive consultation process. The specific objective is to increase decent employment and incomes for rural Ethiopians, particularly youth and women, in four environmentally sustainable agro-industrial parks and their agricultural production zones which should be achieved through the realisation of five results:

1. Agro-industrial park infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met.

2. The capacity and financial resources of microfinance institutions and local finance institutions to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the agro-industrial parks are increased.

3. The capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agro-processing markets are improved.

4. The skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are established.

5. The coordination of all agro-industrial park stakeholders and the governance of agro-industrial performance are made effective.

This EUR 45 000 000 action, financed from EDF resources will leverage an estimated EUR 167 880 000 from the different donor partners contributing directly to the five results/components providing, therefore, a substantial contribution to the first phase of AIP development in Ethiopia.

4. Lessons Learnt

Action 1:

Lessons learnt are linked to experiences from a number of ongoing EU funded projects as well as observations on the overall sector developments and participation in formal and informal dialogue with the national authorities and within the Ethiopian Energy Development Partners Coordination Group currently co-chaired by the EU Delegation. Development Partners share with each other on a regular basis experiences and lessons learned and barriers in relation to different interventions supported by donors. In particular, donors are coordinating to ensure that the 2017 National Electrification Plan is supported in all its components (grid and off-grid as well as reforms).

Action 2:

Lessons from similar agro-industrial development initiatives in India and Latin America have shown that processing infrastructure should not be established without considering whether the supply of primary agricultural products can gradually be ramped up to meet agro-industrial requirements. The market is the basic driver of all value chains in order to create a pull effect on agricultural production. Access to credit is essential for all value chain operators, as it enables them to modernise, innovate and differentiate products. Enterprise development needs to have a sufficient labour pool with both cognitive and technical skills that can be acquired through adapted training curricula for new job opportunities on and off farm, particularly targeting women and youth. Government plays a critical role in agribusiness development when it focuses on providing basic public infrastructure and when it fosters a dynamic dialogue with private sector actors to address the bottlenecks they face in the business environment.

5. Communication and visibility

The two Actions shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan, to be elaborated during the inception phase with inputs from all implementing partners and supported with the budget indicated in the budget breakdown of each Action.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Guidelines for European Union External Action shall be used to establish the Communication and Visibility Plan and the appropriate contractual obligations.

6. Cost and financing

Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia	EUR 35 000 000
Contribution to the Promotion of Sustainable Ethiopian Agro-industrial Development (PROSEAD)	EUR 45 000 000
Total EU contribution to the measure	**EUR 80 000 000**

The Committee is invited to give its opinion on the attached Annual Action Programme 2018 – Part 2 in favour of Ethiopia.

EN

This action is funded by the European Union

ANNEX 1

of the Commission Decision on the financing of the annual action programme 2018 – Part 2 in favour of the Federal Democratic Republic of Ethiopia

Action Document for "Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia (Blending for electrification)"

<table>
<tr><td>1. Title/basic act/ CRIS number</td><td colspan="4">"Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia (Blending for electrification)"
CRIS number: ET/FED/040-937
Financed under the 11th European Development Fund (EDF)</td></tr>
<tr><td>2. Zone benefiting from the action/location</td><td colspan="4">Ethiopia
The action shall be carried out at the following location: Ethiopia</td></tr>
<tr><td>3. Programming document</td><td colspan="4">National Indicative Programme (NIP) 2014-2020 between Ethiopia and the European Union</td></tr>
<tr><td>4. Sector of concentration/ thematic area</td><td>Sector 2 - Infrastructure for economic transformation and climate change</td><td colspan="3">DEV. Aid: YES[1]</td></tr>
<tr><td>5. Amounts concerned</td><td colspan="4">Total estimated cost: to be defined depending on the specific accepted blending operation/s
Total amount of EDF contribution: EUR 35 000 000
This Action will be co-financed by entities and for amounts to be indicated at the end of the Africa Investment Platform (AIP) award procedure.</td></tr>
<tr><td>6. Aid modality and implementation modality</td><td colspan="4">Project Modality
This action regarding the Africa Investment Platform (AIP) shall be implemented in indirect management.</td></tr>
<tr><td>7 a) DAC code(s)</td><td colspan="4">23210 – Energy generation, renewable sources – multiple technologies
23630 – Electric power transmission and distribution</td></tr>
<tr><td>b) Main Delivery Channel</td><td colspan="4">40000 Multilateral Organisations</td></tr>
<tr><td rowspan="2">8. Markers (from CRIS DAC form)</td><td>General policy objective</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
<tr><td>Participation development/good governance</td><td>☐</td><td>☒</td><td>☐</td></tr>
</table>

[1] Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	Aid to environment	☐	☐	☒
	Gender equality (including Women In Development)	☐	☒	☐
	Trade Development	☒	☐	☐
	Reproductive, Maternal, New born and child health	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Main objective**
	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☐	☐	☒
	Climate change adaptation	☐	☐	☒
9. Global Public Goods and Challenges (GPGC) thematic flagships	N.A			
10. Sustainable Development Goals (SDGs)	**Main SDG:** SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all **Secondary SDGs:** SDG 1: End poverty in all its forms everywhere SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all SDG 13: Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.			

SUMMARY

The Government of Ethiopia, in its latest Growth and Transformation Plan (GTPII: 2015-2020), envisions transitioning from a low-income economy to a lower middle-income country by 2025. Ethiopia's ability to achieve this ambitious goal is constrained by current challenges in the power sector.

The electricity generation capacity installed in Ethiopia is currently 4 256 MW[2] (90 % from hydroelectric plants) to serve a country with 105 million inhabitants with high economic growth and a rapidly growing electricity demand expected to triple between now and 2025.

Although geographic coverage of the grid is estimated to have reached 60 % of the towns and villages in the country, only 20+ % of the population is connected to the grid with an estimated additional 11 %[3] served by different off-grid solutions. Recent estimates of electricity access based on the Multi-Tier Framework approach (electricity services levels defined in tiers 0-5) suggest that the current total electricity access rate is higher. According to this study[4], 44 % of the population have access to at least basic electricity service (tier 1 and above) of which 15 % are off-grid solutions in tier 1 and 2 with very low electricity

2 Ethiopian "National Electrification Programme", November 2017.
3 Ethiopian "National Electrification Program", November 2017.
4 "Ethiopia Beyond Connections – Energy Access Diagnostic Report Based on the Multi-Tier Framework", World Bank 2018.

availability requirements. This leaves more than half of the households (56 %) with no or insufficient access to electricity (tier 0).

With the current and foreseen dramatic impacts of Climate Change in Ethiopia (which could put at risk the hydroelectric generation) and the vast extension of the rural territory (which makes grid electrification challenging), a diversification strategy with additional renewable generation in solar, wind and geothermal energy (including Independent Power Producer (IPPs) schemes) and an ambitious electrification programme aimed at significantly increasing access both in the on-grid and off-grid sectors is being pursued by the Government of Ethiopia.

The specific objective of the action is to promote investments in sustainable, inclusive and affordable energy access.

The action will be carried out through blending in the framework of the Africa Investment Platform. More specifically, blending will be allowed for investments in support of the Government of Ethiopia's electrification strategy in the following fields:

- Infrastructure investments

- Support private investment in off grid electrification

Projects will be selected according to the Africa Investment Platform (AIP) award procedure. The Ministry of Water, Irrigation and Electricity (MoWIE) will monitor the overall implementation of the awarded blending project/s to ensure compliance with the country's energy policies, strategies and programmes.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Ethiopia has an estimated population of about 105 million people, with an annual population growth rate of 2.85 %. The economy is predominantly agriculture-based with over 84 % of the population living in rural areas directly or indirectly employed in agriculture.

Ethiopia's energy consumption is **predominantly based on biomass energy sources**. An overwhelming proportion (94 %) of the country's energy demand is met by traditional energy sources such as fuel wood, charcoal, cow dung cakes and agricultural residues. The balance is met by commercial energy sources such as electricity and petroleum. One of the key challenges in the energy sector is the supply of household fuels, which is associated with massive deforestation and the resultant land degradation. The increasing scarcity of fuel wood is exacerbated by Ethiopia's high population growth rate. Ethiopia is endowed with significant renewable energy resources, with huge potential for hydro, solar, wind, and geothermal power. It is one of the few countries in Sub-Saharan Africa, if not the world, which **generates almost all its electricity from renewable energy resources (~98%).**

Ethiopia's ambition is to become a **regional power hub using its considerable clean energy reserves potential and the relatively low generation costs to export electricity to its neighbours**. Currently, interconnections are operating with Djibouti and Sudan. In the coming years, power exports to Sudan, Djibouti, Kenya, and Tanzania could boost the country's export revenue potential, estimated to be as much as USD 600 000 000 per year, by the end of the decade[5].

The government has during the past years made significant progress in increasing electricity generation capacity and grid expansion, while electricity access remains low at around ~30 % of the population (20+ % on grid and around 11 % off-grid in 2017)[6].

The installed generation capacity reached 4 256 MW by the end of 2016 of which 90 % is hydropower, 8 % wind and 2 % diesel generators. The peak load reached last year was MW 2 208, indicating the potential for expanding new connections. Additionally, other large-scale hydropower projects (with capacity exceeding 6 000 MW) are now under construction. However, the **actual energy supplied from these hydropower plants is subject to uncertainty and fluctuations due to variations in seasonal and annual rainfall amounts**, as well as climate change (e.g. El Niño in 2015–2016 led to countrywide blackouts). Given the expected strong growth in demand for electricity (nearly 10 %, annually) led by population growth and the country's industrialisation strategy, complementary renewable energy sources such as wind, solar and geothermal are planned to be developed to mitigate the risk of overreliance on and variability of hydropower[7].

1.1.1 Public Policy Assessment and EU Policy Framework

The overarching development strategy for Ethiopia is the **Climate Resilient Green Economy** (CRGE) Strategy which sets out the national vision to achieve the status of climate-resilient middle-income country with no net growth in greenhouse gas (GHG) emissions by 2025. The CRGE initiative was officially launched on December 8th, 2011 by His Excellency Mr Meles Zenawi, then Prime Minister of Ethiopia, during the Seventeenth session of the Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC). The CRGE strategy is now fully embedded in the second Growth and Transformation Plan (GTP II, 2015-2020) and within the Ministry of Water, Irrigation and Electricity (MoWIE) it has identified 11 priorities in the following sections: "power generation", "energy access", "irrigation for agriculture", and "water, sanitation and hygiene".

Ethiopia's Nationally Determined Contributions (NDC) to climate change action foresee the expansion of electric power generation as a measure to address climate change mitigation, but also the expansion of non-hydroelectric renewable energy as a key climate change adaptation measure that minimises the adverse effects of drought on a sector that predominantly relies on hydroelectric power.

The Government of Ethiopia in its national development plan, the **Growth and Transformation Plan II (GTP II)**, affirms its priority to the development of the **energy sector which it considers a pillar for the modernisation of its economy and the wellbeing of its citizens and communities.** The ambition is to ensure sustainable, reliable, affordable and quality energy service for all sectors in an environmentally sound manner and become a renewable energy hub in the Eastern Africa region by 2025. The extremely ambitious targets set in the GTP II foresee an increase in electricity coverage from 60 to 90 % (in 2019-2020), a power generation capacity reaching more than 17 000 MW, a total length of distribution lines

5 Ethiopian "National Electrification Programme", November 2017.

6 Government of Ethiopia "National Electrification Programme". The off-grid access rate is calculated on the basis of more than 2 000 000 stand-alone solar (including solar lanterns), 33 isolated mini-grids, and about 40 000 solar systems. Hence, the larger part of the off-grid access rate must be assumed to be based on small solar lanterns and not actual access to electricity for wider purposes in the households.

7 International Development Association Programme Appraisal Document on a Proposed Credit for the National Electrification Program November 28, 2017.

reaching 21 728 km, a total number of customers (connections) of almost seven million and an annual per capita energy consumption of 1 269 kWh by 2020.

Until recently, government policy was focused to a large extent on grid expansion and large scale hydropower development. Most of these developments were government-sponsored. Major rural towns were the targeted but not smaller or scattered rural villages. The novelty of the GTP II is that it does not focus only on infrastructure development, it also **increases significantly its targets on last-mile connectivity** and it also put forward **ambitious off-grid targets**.

With the "**National Electrification Strategy**" **(NES)** issued in June 2016, the Government of Ethiopia made a shift in strategic focus and priority and formally recognises the need to focus even more on last-mile connectivity. The NES identifies three key sector challenges that need to be tackled for the scale-up of connections: (a) institutional, (b) planning and technical, and (c) financial; and provides corresponding recommendations for immediate interventions. The NES highlights the need to define a national electrification policy indicating targets and timetables for the connections rollout (grid and off-grid); roles and responsibilities as well as coordination of sector institutions and stakeholders (including the private sector); and adequate and sustained funding for the duration of the programme. It also identifies the Government's commitment as the key catalyst of change and overseeing institution for the achievement of the universal electricity access development goal.

This strategy was followed up by the launch in November 2017 of the "**National Electrification Programme" (NEP)**, including an Implementation Roadmap and a Financing Prospectus. In the programme, prominence is given to the rapid scale-up of connections in areas that are in the vicinity of the network. However, the NEP sets out the ambitious objective of ensuring universal electricity access by 2025 and therefore is organised into three key areas of intervention:

1: On-grid electrification;

2: Off-grid electrification (both stand-alone systems and mini-grids);

3: Financing and institutional framework (to support the first two areas).

The NEP envisions that the private sector will play a significant role in the implementation of the different components of the electrification programme. In the off-grid sector, a combination of public sector and private sector led delivery mechanism are foreseen. Private sector, market-based off-grid solutions are anticipated in the more commercially viable rural areas. In deep rural areas, the private sector is also seen as a driving force but accompanied by necessary government support. Citizen engagement and gender issues are also addressed in the NEP[8].

In order to increase the resilience of the sector to climate change and to ensure a more robust generation adequacy, the **GTP II also intends to massively scale up solar, wind, and geothermal power generation capacity** in addition to the traditional hydropower base, which is still expected to be the backbone of the Ethiopian electricity system. Given the massive investment in energy infrastructure planned under the GTP II and the need to ensure sufficient financing to realise these ambitions, the government has in the past two years made a shift in policy regarding power generation financing and opened the sector up for IPPs. **IPP** is now the preferred implementation modality for most power generation projects, unless a financing package with very concessional loans can be presented. In addition, to promote and

[8] For instance, education and awareness of various stakeholders are foreseen, with a particular emphasis on poorer community members and women (including girls) who may have less access to information and resources and have a lower ability to voice concerns and preferences, but are often the primary energy producers for the household.

facilitate sustainable financing of large infrastructure projects in the energy sector and in other key infrastructure sectors, a new public-private partnership (PPP) Proclamation was adopted by Parliament in January 2018. The Government of Ethiopia has also in relation to specific transactions gained the first experiences in preparing a transparent and competitive procurement framework (auction based bidding process) for private sector investments in the energy sector. Establishing a transparent and coherent framework for competitive IPP energy tenders is work in progress, where the Government of Ethiopia is currently supported by different donors, and where good coordination with the overall PPP framework is also needed.

Ethiopia's energy policy and strategy framework is well designed and coherent in itself and well in line with the **Agenda for Change**[9] and global initiatives, such as the **Sustainable Energy for All (SE4All)**. The proposed action is in line with (i) the EU's new **European Consensus for Development**[10] which includes a cross-cutting focus on sustainable energy and climate change and on blending public and private financing sources to scale up sustainable energy financing; (ii) the **Africa-EU Strategic Partnership** and the **Africa-EU Energy Partnership** which include a focus on sustainable access to affordable, clean and efficient energy services, new and renewable energy resources and climate change; and (iii) the objectives of the EU to act as catalyst for additional donor and private financing including in the energy sector. The National Electrification Program (NEP), in particular, is also indirectly supporting the EU environmental (e.g. fight to deforestation) and gender equality (e.g. direct impact on health and time savings for women traditionally responsible for cooking and wood fetching) commitments.

The Action is also consistent with the objectives of **Sustainable Development Goal (SDG) 7** to facilitate universal access to energy by 2030, **SDG 13** on combating the impact of climate change and the **Paris Climate Agreement**.

Finally, the relevant programming document between the European Union and Ethiopia, the **11th EDF National Indicative Programme 2014-2020**, includes the focal sector "*Infrastructures for economic transformation and climate change*". Three specific objectives are pertaining to energy:

I. Improve access to modern, safe and sustainable energy services;

II. Increase power production from renewables such as biogas, micro-to-mini-hydro, geothermal, solar and wind;

III. Improve energy efficiency.

Given the ambitious targets of the Government of Ethiopia in terms of energy generation and electricity access, the preferred mode of financing the projects is blending of EU grants with Development Finance Institutions funds to maximise impact and leverage effect of the EU grant funding.

As a contribution to the Africa Investment Platform, the proposed action is in the framework of the **EU External Investment Plan**[11], which seeks to mobilise investment and leverage funds in EU partner countries in Africa and the Neighbourhood region and in particular facilitate investments by private sector investors.

9 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Increasing the impact of EU Development Policy: an Agenda for Change. COM(2011)637) final of 13.10.2011.

10 New European Consensus on Development: 'our world, our dignity, our future'. OJ C 210 of 30.6.2017.

11 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: Strengthening European Investments for jobs and growth: Towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan (EIP). COM(2012)492 final of 12.9.2012.

1.1.2 Stakeholder analysis

The **Ministry of Water, Irrigation and Electricity (MoWIE)** is formally the lead institution for the energy sector in Ethiopia. According to Proclamation no. 916/2015, the mandates of MoWIE include promoting the development of water resource and electricity and promoting the growth and expansion of the country's supply of electric energy. MoWIE is accountable for catalysing energy development, including through private investments. Coordination and monitoring of the sector are also a MoWIE responsibility. Apart from the MoWIE, there are nine regional bureaux the mandate of which is to implement energy policy and strategy in the regions although with limited capacity in implementing renewable energy projects.

The **Rural Electrification Fund**, established within MoWIE in 2003, should play an important role in promoting the development of an off-grid renewable energy technology market. However, the Rural Electrification Fund has so far had limited resources to fully fulfil its mandate and a redesign of the Fund is foreseen in the NEP in order to ensure the anticipated scale and speed of electrification delivery.

The **Ethiopian Electric Power (EEP**) is a state-owned power company established in 2013 when the former fully integrated company Ethiopian Electric and Power Corporation was split and restructured into two entities - a power generation and transmission company (EEP) and a distribution and sales company (EEU). EEP is in charge of generation and transmission activities and responsible for development and construction of electric power generation, transmission lines and substation projects as well as interconnectors to neighbouring countries. EEP plays a central role in the new IPP model where private sector investors participate either through competitive bidding modalities or in some cases via different types of direct award or unsolicited procurement processes.

The **Ethiopian Electric Utility (EEU)** was also established in 2013. EEU's mandate is to construct and maintain electric distribution networks; to contract out the distribution networks construction to contractors as required; to administer electric distribution networks, to purchase bulk electric power and sell electric energy to customers; to initiate electric tariff amendments and, upon approval, to implement the same; in line with directives and policy guidelines issued by the MoFEC, to sell and pledge bonds and negotiate and sign loan agreements with local and international financial sources; and to undertake any other related activities necessary for the attainment of its purposes.

The **Ethiopian Energy Authority (EEA)** is established pursuant to Proclamation no. 810/2013 (the "Energy Proclamation") with the mandate to regulate the electricity sector, and to improve energy efficiency and carry out energy conservation. EEA will have licensing and regulatory oversight, including for private sector entry, across the functional value chain of generation, transmission, distribution and sales functions within the power sector. The EEA, in its role of Regulator, is responsible for establishing standards and regulations required for the implementation of the grid and off-grid programmes, including social, safety, and environmental safeguards as well as their compliance. More specifically, the EEA will define and enforce: licensing requirements, rights and obligations of parties, amendments, certificates of competency, and advise the Government on tariff proposals submitted by a licensee (for grid and off-grid).

Other ministries relevant to the energy sector are the **Ministry of Finance and Economic Cooperation**, the **Ministry of Agriculture** for the bioenergy aspect and, to a minor extent, the **Ministry of Environment, Forest and Climate Change**.

Action beneficiaries. The beneficiaries of the action will include the following:

- ✓ **Households.** Access to electricity at household level will improve the quality of life by providing lighting, alternative cooking, access to information and communication (radio, TV, phone, etc.) and very often reducing indoor air pollution and emission of GHGs following the use of electric stoves and electric "mitad" used to bake "injera", a staple food in Ethiopia. Given the different roles men and women have in the households, access to electricity is seen to positively impact women's time and health. According to the NEP, "studies in South Africa, Nicaragua and Guatemala show that women are 9–23 percentage points more likely to gain employment outside the home following electrification".
- ✓ **Public services.** Electrification of public services (including schools, health centres, etc.) will provide a better quality of service. The Government energy institutions could also benefit from the electrification and/or renewable generation projects through improving their planning and implementation capacity (particularly if a Technical Assistance (TA) component is part of the project).
- ✓ **Private sector.** Access to a reliable and cheap electricity will stimulate the birth of new Small and Medium Enterprises (SMEs) and increase the productivity of existing ones. Private sector energy service companies would also benefit from financial instruments foreseen by the action (e.g. easier access to capital).

1.1.3 Priority areas for support/problem analysis

Ethiopia pursues through the GTP II an ambitious growth and transformation strategy with strong emphasis on structural transformation, industrialisation, urbanisation and export promotion. The **energy sector is one of the key economic infrastructure sectors expected to be an enabling driver of the GTP II targets**. Without adequate, reliable and affordable electricity, Ethiopia cannot realise its ambition of developing a domestic manufacturing sector and its big push for industrialisation and export-led growth. Nor can it ensure further poverty reduction, human development and the attainment of middle-income status by 2025.

Ethiopia therefore has the ambition of rapidly **expanding its power generation capacity** and become a regional power hub capitalising on its relatively low power generation costs to ensure increased export earnings from selling electricity to neighbouring countries. At the same time the government **aims at achieving universal electricity access to all by 2025** as defined in its national electrification programme.

Ethiopia has **over the past 10 years followed an aggressive expansion strategy and increased its power generation capacity from 850 MW to 4 256 MW** (the second highest in Africa after South Africa), and several new power generation projects are under construction. This expansion has so far mainly been driven by hydro power projects and the country is today heavily dependent on hydro power, which accounts for 90 % of installed power capacity. Ethiopia is, however, endowed with abundant resources of renewable energy and still has significantly untapped resources not only in hydro power, but also in solar, wind and geothermal.

Electricity demand has been growing with 10 % per year on average in the past years and is expected to more than triple between now and 2025. The main drivers of this demand growth include the planned accelerated household connections, increased electricity exports and industrial demand growth. In order to ensure adequacy of supply, meet the growing electricity demand and mitigate vulnerability to climate change and periodic insufficient rainfalls, the government has in recent years followed a diversification strategy in which the hydro dominated electricity mix is complemented with wind, solar and geothermal capacity.

By doing so, the country will also be able to capitalise on the global trend of dramatically decreasing costs of in particular onshore wind and solar photovoltaic systems (PV).

The **government's very ambitious electricity expansion plans cannot be financed by public funding and borrowing alone**. The financial viability of the sector and the two power companies EEP and EEU are already today challenged. The government has therefore made a **shift in policy and is actively seeking the involvement of the private sector to help finance the required investment via IPPs**. Despite some recently completed Power Purchasing Agreements (PPAs) for a solar and a geothermal project, there is still a long way to go to realise the targets and ensure sufficient investment from private partners.

One critical issue is the current tariff structure where Ethiopia, with an average domestic tariff of USD 0.03/kWh (last revised in 2006), has **one of the lowest tariffs in Africa** and elsewhere. This level of tariff does not ensure full cost recovery, puts pressure on the financial viability of the sector and may deter some potential investors. The revenues from the tariff have also not kept pace with rising borrowing costs[12]. The sustainability of the current tariff level has been a recurrent topic in the dialogue between the government and development partners over the past years. The government is aware of the concerns of many partners and experts, and the economic rationale for a tariff increase. However, the government also need to balance electricity tariff revisions against socio-political challenges in a country with a large proportion of the population living below the poverty line and frequent protests and unrests in different parts of the country. A tariff reform has been underway for some time and a draft proposal is currently under review would set the average domestic rate at USD 0.06 kWh[13]. This remains to be adopted and may be phased in over a longer period.

The domestic tariff regime forms an important element of financial sustainability. However, the Government of Ethiopia is also considering **additional actions to improve financial viability** such as augmenting domestic revenue with revenues from power exports, systematic restructuring and/or refinancing of existing debt, and finding innovative ways of reducing the public investment burden and introducing sustainable financing mechanisms such as increased private sector participation. In addition, the current bill collection rate is rather high (80-85 %) and commercial and technical losses lower (23 %) than regional peers[14]. All the above factors combined could support a more sustainable and cost-reflective tariff regime in the longer term based on e.g. the proposed tariff rate of 0.06 kWh.

While initial experiences have been gained with regard to both unsolicited IPP's and competitive IPP tenders, there is still some regulatory uncertainty on both the detailed legal framework and the tender procedures. With the **adoption of the new PPP Proclamation by the Parliament in January 2018**, an important step has been taken. The detailed subsidiary directives and definition of exact roles and responsibilities between different government agencies will need to be developed in the coming period.

Another issue is to **ensure bankability of projects intended to be financed by private sector investors**. A pipeline of bankable projects should ideally be developed to underpin the government's ambitions and to obtain the necessary financing. Given the country's overall debt situation and the challenges in getting sufficient access to foreign currency, different finance and guarantee instruments could be needed to stimulate the required investment in the electricity sector.

[12] International Development Association Program Appraisal Document on a Proposed Credit for the National Electrification Programme November 28, 2017

[13] Ethiopian "National Electrification Programme", November 2017.

[14] Ethiopian "National Electrification Programme", November 2017.

The focus of the Government of Ethiopia's electrification efforts during the last decade was mainly on expanding the country's network. The Government of Ethiopia established the Universal Electricity Access Programme (UEAP) in 2005 with the mandate to electrify rural towns and villages through extension of the grid. Under the UEAP, between 2005 and 2015, the electricity grid was extended to about 6 000 towns and villages from the initial 667 and **grid coverage reached 60 % of the towns in the country**. Despite major strides in the past decade in ensuring electricity coverage via grid extensions alongside significant generation expansion, actual electricity access is still extremely low: roughly **70 million people out of the total population of 100 million are currently without electricity** access posing severe constraints to economic and social growth.

According to the NEP, there are about 300 000 households waiting for a connection to be delivered, of which about 50 000 have already paid the full connection fee. Currently, it is estimated that of the 15 600 000 unconnected households, about 7 600 000 live in vicinity of the low voltage network; other 8 000 000 would require limited medium voltage extensions (as well as low voltage (LV)) to be connected.

The new National Electrification Programme provides a clearer and optimised (least cost based) planning framework for electrification and, together with additional resources, capacity building and technical support provided by the development partners, it represents a major chance to achieve substantial results in the connection rate. To support the least cost electrification planning and the definition of electrification service level in different geographical areas of the country, a GIS mapping is currently being undertaken by the Government of Ethiopia with the support of the World Bank and Power Africa. The results of the GIS mapping are expected later in 2018.

In response to the objective of achieving universal access by 2025, the government in November 2017 launched its "**National Electrification Programme**" **(NEP)**. The NEP will be carried out in phases, with the initial focus on the first five years of the programme (2018-2023).

The NEP's Implementation Road Map is organised into the following key areas of intervention:

1) On-grid electrification: a detailed high level geospatial least-cost plan study is ongoing in order to prioritise least-cost connections with estimated costs.

(i) **Densification:** a preliminary estimation of 4 500 000 new customers are situated very close to the existing network. These connections mostly require short low voltage (LV) service drops, and meters with the lowest unit cost per connection and will be given priority.

(ii) **Expansion:** during the second phase of the NEP additional customers who are not proximate to the existing grid will be connected. These connections will require both medium voltage (MV) and LV extensions (as well as possible reinforcement of the transmission network and energy generation). The comprehensive geospatial least-cost roll-out plan will provide evidence on which areas to develop first.

2) Off-grid electrification: This area will be developed along two strategic drivers.

(i) **Off grid pre-electrification programme (transitional):** the target beneficiaries are settlements where grid connectivity is projected as least-cost but that may have to wait several years for the grid expansion. These beneficiaries will be connected through a mini-grid with local LV network or solar households systems above 10 Wp. Tariff, grid integration protocol and quality of service are among the issues that need to be defined by the concerned authorities as part of the implementation of this programme.

(ii) **Off-grid programme targeted where grid connectivity is not the least-cost solution:** in this case beneficiaries are unlikely to be served from the grid since their distance or isolation from neighbours' settlement with prohibitive connection costs. For this portion of population preliminarily estimated at 2 % of total population or 500 000 households (HHs) according to the NEP different options are available, from pico-solar systems (solar lanterns) for basic services of lighting and phone charging, to more powerful solar HH systems up to mini-grid systems, depending on cost effectiveness. Social services delivery institutions, mainly health centres and secondary schools, will also be provided with electricity by 2022 while remote health posts and primary schools are expected to be equipped with electric services by 2025. The latest estimates from the Government of Ethiopia indicate that 4 900 000 new connections in the off-grid area will be needed to ensure universal access by 2025. This represents 35 % of the total requirement to achieve 100 % electricity access. Out of the 4 900 000 off-grid connection 2/3 are expected to be in rural areas and 1/3 in deep rural areas[15].

3) Financing and institutional framework: A number of supporting actions are necessary in order to achieve the ambitious electrification targets. A number of initiatives have been put in place already:

- establishment of two separate public enterprises, EEP for generation and transmission and EEU for distribution and customer services;
- establishment of the EEA as sector regulator;
- moving the responsibility for medium voltage network extension from EEP to EEU in the implementation of the Electricity Access programme;
- establishment of a dedicated PPP unit within MoFEC in charge of PPP transactions;
- preparation of an Energy Regulation for issuing licences on generation, transmission, distribution and sales.

MoWIE is responsible for overall coordination and oversight of the implementation of the NEP. MoWIE (minister level) will chair a NEP Steering Committee, which will provide high-level strategic guidance and policy guidance for the implementation of the NEP. It is planned to establish a new Directorate of Electrification (DoE) within MoWIE composed of experts in on-grid and off-grid issues. The DoE will be responsible for the day-to-day monitoring and coordination of activities, including liaising with implementing agencies for regular assessment of progress towards the plans and targets. A dedicated off-grid Task Force chaired by MoWIE has also been established in early 2018. This Task Force meets regularly to discuss how to implement the off-grid roll-out in practice and is also charged with developing the off-grid component of the upcoming NEP 2.0.

The huge financial resources required by the plan will use different sources like concessional loans and grants from development partners, Government and EEU resources and private sector investments.

A programme implementation support and technical assistance is also included in the NEP in order to enhance planning and commercial capabilities, financial management, transparency, accountability, governance and long term sector financial viability. The NEP identifies a requirement of immediate Technical Assistance activities directed at key government agencies (in particular MoWIE, EEU and EEP) amounting to a total of USD 48 000 000.

[15] MoWIE presentation "Electrification Perspectives Programme" (April 2018) presented to Energy Development Partners' Group.

A NEP 2.0 is being prepared by the Government of Ethiopia and is to be launched around the end of 2018 with a more focused strategy for the off-grid sector. Several donors assist the Government of Ethiopia in developing NEP 2.0 with the World Bank in a leading role. The EU also supports the NEP and currently provides TA through the EU Technical Assistance Facility (TAF) to improve the enabling framework for investment in the off-grid sector and attracting private sector investment. The services concern the review of the legal, institutional and financial framework in Ethiopia and on this basis develop a tender design process and a package of tender documents for minimum subsidy tenders based on defined service levels (multi-tier framework) in off-grid areas. This first part of the TA will be concluded in July 2018 and it will be followed-up with a package of bankable projects based on selected prefeasibility studies to be submitted in November 2018.

In response to the above challenges and government plans, EU support through blending EU funding from the NIP with loans or other financing from financial institution(s) is planned in the framework of the Africa Investment Platform. One or more specific interventions are planned to support the implementation of the Government of Ethiopia's electrification plan – be it the on-grid electrification pillar or the off-grid pillar. Indeed, given the size of the challenge (60-70 million people to be electrified by 2025), the blending mechanism would allow to leverage substantial additional funds to achieve the ambitious goal set by the Government of Ethiopia.

Under this action two different types of operations are envisaged to be supported through the blending mechanism:

1) **Infrastructure investments to support electrification**
   This type of blending operations would support the Government of Ethiopia's infrastructure investments to achieve their universal access goal.

   Concretely, for instance, as part of the electrification programme additional network infrastructure improvements (e.g. reinforcements of transmission and distribution lines) are required to support the significant number of additional customer connections and the increased load. The Government of Ethiopia has estimated that the total costs of this infrastructure package amounts to USD 200 000 000.

2) **Support private investment in off grid electrification**
   This type of operations would support private sector investment in the field of off-grid electrification.

   Building on the results of the current EU TA, around EUR 15 000 000-20 000 000 could be used to support electricity access in off grid areas delivering off grid electrification solutions both in commercially viable areas and/or in deep rural areas (through support to the minimum subsidy tenders planned by the Government of Ethiopia).

Both types of blending operations could be further refined through the support of the ongoing EU TA, particularly the second phase (pipeline of bankable projects). Moreover, following the current EU TA, a scoping market study could be envisaged to better define the off grid operations. Finally, the investment proposals should be aligned with the objectives and principles of ElectriFI.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)[16]	Mitigating measures
Debt sustainability of Ethiopia deteriorating and difficulties to find a partner Financial Institution (FI).	M	Blending to be used as risk mitigating instrument.
Lack of political will to implement the project/s through the chosen implementation modality.	L	A continued dialogue at the different levels of Government and facilitation in the Energy Sector Partners Group.
Financial sustainability of the sector due to low tariffs.	M	A continued dialogue at the different levels of Government and coordinated messages from key partners in the Energy Development Partners Group. Sustainability of any investment proposal to the AIP will be carefully assessed and possible accompanying measures identified to reinforce it.
Legal and financial framework difficult for private sector to invest.	L	The ongoing EU TA is analysing regulatory and financial barriers.
Assumptions		
1. Projects to be financed are identified on time. 2. Sufficient financing is provided. 3. The entity/ies identified to implement the projects have sufficient capacity. 4. Timely adoption of the new Energy Regulation and other relevant regulations. 5. Timely institutional reforms and restructuring of EEP, EEU and EEA. 6. Efficient procurement and PPP system.		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

It should be noted that energy is a relatively new sector for the EDF in Ethiopia since energy only became a focal sector with the current NIP for Ethiopia 2014-2020. Lessons learnt are therefore limited to experiences from a number of ongoing EU funded projects as well as observations on the overall sector developments and participation in formal and informal dialogue with the national authorities and within the Energy Development Partners Coordination Group currently co-chaired by the EU Delegation. Development Partners share with each other on a regular basis experiences and lessons learned and barriers in relation to different interventions supported by donors.

In the off-grid area, the EU Delegation has two relevant experiences. The Power Kiosks project (Energy Facility) aiming at scaling up rural electrification which, after two and a half years of implementation, closed all installed kiosks in Ethiopia as financial viability in these remote rural areas was not ensured. The project is led by a private company and is still ongoing in two other countries (Madagascar and Kenya).

16 Risk level: H=High, M=Medium, L=Low.

The other relevant operation is the support to the national biogas programme where the implementation and delivery is led by the government at regional level, while the private sector (local entrepreneurs/masons) is contributing through the construction of the biodigesters. The take up in the targeted regions has been significant and the programme is now looking in the maintenance/after sale issues.

Interesting would also be to see the results of the ongoing evaluation of the World Bank credit line facility to make sure any other support to the private sector will be targeted and effective.

Finally, challenges faced by the sector are demonstrated in the capacity issues of the relevant institutions. The government is committed to improve the performances of the sector agencies and is well aware of the institutional capacity gaps in the current situation. The establishment in 2014 of a new regulatory body, the EEA, the proposal to create a new Directorate of Electrification within MoWIE and more generally the clear messages in the NEP regarding the need for sector-wide capacity building are all indications of this. It is crucial that donor assistance is provided to support such institutional reforms and further capacity building of the key government bodies in charge of implementation of the government's energy policy and programmes. Capacity building and human resource development is expected to significantly improve the sector performance by addressing the overall business management. The EU has for the past four years provided Technical Assistance to government energy agencies via different assignments under the TAF. Most recently, a team of four experts has been hired under the TAF and work directly with MoWIE and other government institutions proving support to the development of the off-grid strategy, including support to the work of the Off-Grid Task Force.

3.2 Complementarity, synergy and donor coordination

The **Energy Development Partners Group (EDPG)** was formally created in early 2017 as a platform for sectoral dialogue with the Government, information sharing, coordination and mapping of the different interventions among Development Partners (DPs) to assure complementarity. The EU Delegation and Denmark were co-chairing the EDPG the first year and the World Bank for now co-chair together with the EU in the next period. The DPs active in the sector include the EU, the World Bank, the African Development Bank (AfDB), the European Investment Bank (EIB), the French Development Agency (AFD), the Japan International Cooperation Agency (JICA), the United Kingdom Department for International Development (DFID), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Denmark, the United States Agency for International Development (USAID, through Power Africa), Norway, Sweden and the United Nations Development Programme (UNDP).

In the field of power generation, Power Africa and the World Bank have been involved in the first IPP solar and geothermal transactions, while the Danish cooperation together with the World Bank is supporting the government in defining the framework for the wind IPPs in the pipeline. The upcoming wind and solar IPPs have the potential to be supported through a blending mechanism as the competitive process has not been launched yet.

So far, the biggest EU interventions are the ongoing support to the biogas national programme (EUR 21 000 000) and the rural electrification through the scale up of Energising Development (EnDev) (EUR 9 000 000).

On the electrification side, the World Bank has supported the Government in the definition of the National Electrification Plan (2017) and just approved a Programme for Results worth USD 375 000 000 USD (in a period of six years: 2018-2023) largely focusing on on-grid connections.

The World Bank has also supported a credit line facility (USD 40 000 000 International Development Association (IDA) loan and USD 5 000 000 grant) to support private sector enterprises and households access to finance for renewable energy and energy efficient products.

EIB approved in 2017 an off-grid solar acceleration programme, aiming at providing access to energy to households and micro-entrepreneurs in five sub-Saharan countries, including Ethiopia.

Finally, the African Development Bank (AfDB) has been involved more in power transmission and distribution projects and is willing to intervene more in off-grid financing.

3.3 Cross-cutting issues

Ethiopia suffers from some of the lowest gender equality performance indicators in Sub-Saharan Africa, with the Global Gender Gap report of 2016 ranking Ethiopia at 109 out of 143 countries in the magnitude and scope of gender disparities.

Improving the access to electricity can provide additional income opportunities: set up of small business; additional working hours thanks to light; mechanised work reducing the physical burden- especially for women and children - and saving time. In particular, evidence shows that time for accomplishing activities that are traditionally women's tasks (e.g. wood fetching for cooking, water fetching and pumping) could be significantly reduced thanks to electrification[17]. That, in turn, could free time for additional school, professional or leisure activities. Moreover, women-lead micro-enterprises (e.g. hairdresser, small shops, etc.) are likely to flourish as electricity becomes available.

The proposed action directly improves environmental sustainability through the use of sustainable renewable energy (RE) technologies, reducing the use of the already overexploited biomass stocks and the pressure on such local biomass stocks as agricultural residues. The Sustainable Energy for All (SE4All) Action Agenda outlines clear gender and climate change related targets and actions to be taken in this respect and supports expansion of low-emission renewable energy, which reduces women's exposure to indoor air pollution and time burden associated with obtaining alternative energy sources. Improved electricity access for social services such as health clinics will also promote gender equality through gains in maternal health outcomes.

Recently the World Bank conducted an Environmental and Social System Assessment in the electricity sector finding that Ethiopia has adequate legal framework, including environmental and social regulations. However, the implementation of existing provisions of the environmental and social regulations varies from region to region and is generally low. "*Albeit the legal bases are strongly established, the implementations are not consistently effective in the areas of environmental and social impact assessment preparation, review and approval. The main environmental, health, and safety concerns are likely to be associated with recycle and disposal of spent batteries of Solar Home Systems (SHS) at the end of their useful lives, which is usually three to five years after deployment, in case the action will support SHS adequate mitigation instruments will be adopted*". Should a proposal submitted to the African Investment Platform in the framework of the Action include SHS funding, the inclusion of mitigation measures will be requested to the Lead Financier.

[17] Women are the primary firewood and water collectors in Ethiopia: rural female heads of households spend on average 39 minutes a day collecting water and 32 minutes collecting firewood or other fuel material, and male heads of households spend on average 5 minutes collecting water and 11 minutes collecting firewood. Spouses living in male headed households, spend 50 minutes collecting water and 41 minutes collecting firewood. (Source: NEP, 2017).

The need for a climate risk assessment will be determined for each proposed intervention based on a screening process. Climate-proofing of all relevant infrastructure financed will be guaranteed; climate risk assessments will be prepared, as necessary, to this effect. As well, specifications of transmission equipment will also take into account temperature patterns expected during the life span of the infrastructure under climate change.

On the social side, the proposed action is not expected to result in large-scale land acquisition that could result in any massive physical and/or economic displacements. In particular, densification or network reinforcement will take place in areas already covered by the grid, and LV lines usually follow access roads, while the installation of off-grid systems will take place within existing households and public facilities. Should a generation project (generally more demanding in terms of land acquisition) be proposed for a blending under this Action, an environmental impacts analysis will be required. Finally, the investment proposal(s) will have to demonstrate how gender equality and women's empowerment will be taken into account and identify and mitigate any potential adverse impact on human rights according to the Rights Based Approach.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results and options

The **overall objective** of the Action is to support the implementation of Ethiopia's Climate Resilient Green Economy strategy.

The **specific objective** is to promote investments in sustainable inclusive and affordable energy access.

Expected results (outputs) are:

R1) Increased access to electricity

R2) Increased power production from renewable sources

This programme is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy for all, but also promotes progress towards SDG 1: End poverty in all its forms everywhere, SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, SDG 13: Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy. This does not imply a commitment by Ethiopia benefiting from this programme.

4.2 Main activities

The main activity of the action will be a contribution to investment projects in the sustainable energy access field in Ethiopia.

Indicative activities under Result 1 could be:

- reinforcement and/or extension (of medium voltage and low voltage) grids to allow for additional customers;
- rural electrification projects: both as stand-alone systems or through mini-grids.

Indicative activities under Result 2 could be:

- rural electrification projects: the generation part of either stand- alone systems or mini-grids.

4.3 Intervention logic

The energy sector analysis conducted during the 11th NIP formulation indicated three main areas of possible EU support:

I. Improve access to modern, safe and sustainable energy services;

II. Increase power production from renewables such as biogas, micro-to-mini-hydro, geothermal, solar and wind;

III. Improve energy efficiency.

Ethiopia's public spending on energy already takes a significant share of the country budget and the country is committed to gear its policies towards improved service delivery, programming and financing. In the last couple of years, important steps have been taken by the Government of Ethiopia to make the two first priorities achievable. In particular in terms of improving access, the new National Electrification Programme provides a solid framework of prioritisation and optimisation, while for increasing sustainable power generation, opening the sector to the private sector (through the first big IPPs but also through their contribution to the off-grid electrification) may have paved the way for additional resources to be injected in the sector.

The intervention logic of the action is to use EU funds to leverage additional funds from FI's loans (and eventually also from private investors) to invest to accelerate the country's electrification rate (output 1).

For that to happen, the general policy and institutional framework, as said before, is overall in place, although further institutional, financial and legal issues need to be detailed at the implementation level.

If additional funds are injected in the sector (SO1) and the enabling framework (improved access to capital, legal framework, etc.) is set up, then the grid could be improved allowing additional households to be connected and off-grid solutions could reach even the most remote areas of the country, allowing people access to modern sustainable energy (output 1). Increased renewable energy generation (output 2) will be a consequence (for off-grid) or a requirement (for on-grid) as physical connection to the grid does not ensure automatically a sufficient level of service.

The project/s to be awarded by the Africa Investment Platform could also include technical assistance components (to be assessed at the project definition stage) to optimise the effectiveness of the investment.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this Action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this Action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 84 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component

N/A.

5.4 Implementation modalities

Indirect management. The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the Action with EU restrictive measures affecting the respective countries of operation[18].

5.4.1 Contribution to the Africa Investment Platform (AIP)

This contribution may be implemented under indirect management with the entities, called Lead Financial Institutions, and for amounts identified by the AIP board. The entrusted budget-implementation tasks consist in the implementation of procurement, grants, financial instruments and payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it. The eligible Financial Institutions are listed in Appendix 2.

Certain entrusted entities are currently undergoing the ex-ante assessment. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002, they can be entrusted with budget-implementation tasks under indirect management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this Action impossible or exceedingly difficult.

18 https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

5.6 Indicative budget

Item	EU contribution (in EUR)	Indicative third party contribution, in currency identified
Contribution to the Africa Investment Platform (AIP)*	34 900 000	The contributions from the financial institutions will be decided at a later stage **
5.9 – Evaluation, 5.10 - Audit	100 000	N.A.
5.11 - Communication and visibility	will be covered by another decision**	N.A.**
Contingencies	N.A.	N.A.**
Total	**35 000 000**	The contributions from the financial institutions will be decided at a later stage**

* The contribution to the Africa Investment Platform includes the fees to be paid to the Lead Finance Institutions, as defined in the contractual arrangements of each specific project.
** To be defined at the end of the African Investment Platform award procedure.

5.7 Organisational set-up and responsibilities

The organisational set-up and responsibilities are those put in place in the context of the Africa Investment Platform (AIP).

The contribution will be implemented under the governance of the EDF blending framework with a decision-making process organised on a two-level structure:

- opinions on projects will be formulated by the Board, held whenever possible back-to-back with EDF Committee meetings
- opinions will be prepared in dedicated Technical Meetings, where the project application forms completed by the lead finance institution are assessed.

Activities will be implemented under indirect management by the Lead Financial Institutions. Pre-identified Financial Institutions are listed in the Appendix.

A steering committee, bringing together representatives from the EU, the Government of Ethiopia and other stakeholders involved in the project implementation, will be established and meet at least on a yearly basis to ensure proper monitoring of all activities of the awarded project/s.

MoWIE will be responsible for monitoring the implementation of the awarded project(s) in compliance with the NEP. MoFEC will oversee the overall coordination of the project/s in particular the loan component of the project funding from the respective financing institution/s..

Projects proposed to the Africa Investment Platform (AIP) will have to explicitly have the Government of Ethiopia's support to be awarded.

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the Action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

MoWIE and MoFEC may also undertake additional project monitoring visits through its own staff and through independent consultants representing them. Reports by the implementing partner/s should be systematically submitted to both Ministries.

5.9 Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for problem solving, in particular with respect to the intention to refine the funded project/s and optimise their impacts.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded in 2020.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded in 2020.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Communication and visibility measures will be implemented by the Lead Financial Institutions responsible for implementing the respective projects. These measures will be described in the project proposal submitted by the Lead Financier to the African Investment Platform. Care will be taken that substantial visibility will be given to all activities described in this Action Document and that the governance framework agreed with the (to be selected) implementing FI ensure EU steering and visibility.

APPENDIX 1 - INDICATIVE LOGFRAME MATRIX[19]

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets[20] (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	Support the implementation of Ethiopia's Climate Resilient Green Economy strategy.	OO1: Per capita income @CMP * OO2:Total poverty head count (percentage) * **[21] (EU RF L1#1) OO3: Annual per capita energy consumption * OO4: Reduced GHG emission* ** (EU RF L1#21)	OO1: 691 USD in 2015 OO2: 23,4% in 2014/15 OO3: 86 kWh in 2015 OO4: 150 Mt CO2e in 2010	OO1: 1177 USD in 2020 OO2: 16,7% 2019/20 OO3:1269 kWh in 2020 OO4: 150 Mt CO2e in 2030	OO1: MoFEC; Central statistical agency OO2: GTP II progress reports ; Central statistical agency OO3: GTP II progress reports; MoWIE reports OO4:	Government of Ethiopia continues to prioritise clean energy as catalyst for growth and wellbeing. External economic support to the CRGE strategy. Economic, political and climatic stability of the country.

19 Indicators aligned with the relevant programming document are marked with '*' and indicators aligned to the EU Results Framework with '**'.

20 National targets are reported.

21 http://capacity4dev.ec.europa.eu/eu-rfi

					UNFCCC reports, National inventory	
Specific objective(s): Outcome(s)	Promote investments in sustainable, inclusive and affordable energy access	SO1: Amount invested in sustainable energy access (yearly in EUR)	SO1: TBD in the inception period	SO1: TBD in the inception period	SO1: MoWIE reports	Economic and political stability of the country.
Outputs	Result 1 - Increased access to electricity	1.1 Percentage/number of population with access to electricity services (on grid and off grid) – gender disaggregated * ** (EU RF L2 #11) (EU RF L1#11) 1.2 km of transmission/distribution lines built or upgraded * ** (EU RF L2 #13)	1.1.a 20% on grid 1.1.b 11% off grid[22] 1.2.a 16.018 km (built in 2014/15) 1.2.b upgraded TBD in the inception period	Universal access by 2025 (indicatively 65% on grid and 35% off grid) 1.2.a 21.728 km (2019/20) 1.2.b upgraded TBD in the inception period	1.1 NEP or MOWIE progress reports 1.2 MOWIE, EEU/EEP reports	Commitment of the government, development partners and private sector to invest in sustainable energy (including maintenance).
	Result 2 - Increased power production from renewable sources	2.1 Off grid (MW) ** (EU RF L2 #12) 2.2 Additional installed power generation capacity (MW) from renewable energy sources connected to the grid * ** (EU RF L2 #12)	2.1 75 MW in 2017 2.2 4,180 MW in 2014/15	2.1 170 MW in 2025 (extrapolated) 2.2 17,208 MW in 2019/2020	2.1 NEP progress reports and extrapolatio n 2.2 EEP or MoWIE reports	Commitment of the government, development partners and private sector to invest in sustainable energy (including maintenance).

22 NEP 2017 data.

APPENDIX 2 – LIST OF ELIGIBLE FINANCIALINSTITUTIONS

Contribution to Africa Investment Platform (AIP) for the Sustainable Energy Programme in Ethiopia (Blending for electrification)

Acronym of Legal Entity	**Legal Entity (sub-entities covered (if any) via hyperlink)**
ADB	Asian Development Bank
AfDB	African Development Bank
AU-IBAR	African Union
CABEI	Central American Bank for Economic Integration
CIFOR	Centre for International Forestry Research
EBRD	European Bank for reconstruction and development
EIB	European Investment Bank
EIF	European Investment Fund
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
NEFCO	Nordic Environment Finance Corporation
OIE	World Organisation for Animal Health

SPC	The Pacific Community
SPREP	South Pacific Regional Environment Programme
WBG	World Bank Group (IBRD, IDA, IFC, MIGA, ICSID)
WFP	World Food Programme

Acronym	**National Agency, Country**
AECID	Agencia española de cooperación internacional al desarrollo, Spain
AFD	Agence française de développement, France
CDP	Cassa depositi e prestiti S.p.A., Italy
COFIDES	Compañía Española de Financiación del Desarrollo, Spain
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH, Germany

FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, Netherlands
KfW	Kreditanstalt fur Wiederaufbau, Germany
PROPARCO	Groupe agence française de développement, France
RVO	Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency), Netherlands
SIMEST	Società Italiana per le Imprese al'Estero, Italy
USAID	United States Agency for International Development, USA

EN

This action is funded by the European Union

ANNEX 2

of the Commission Decision on the financing of the annual action programme 2018– Part 2 in favour of the Federal Democratic Republic of Ethiopia

Action Document for "Promotion of Sustainable Ethiopian Agroindustrial Development (PROSEAD)"

1. Title/basic act/ CRIS number	"Promotion of Sustainable Ethiopian Agroindustrial Development (PROSEAD)" CRIS number: ET/FED/041-522 financed under the 11th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Ethiopia The action shall be carried out at the following locations: Addis Ababa and the regions of Amhara, Oromia, Tigray and Southern Nations, Nationalities & Peoples (SNNP).	
3. Programming document	National Indicative Programme (NIP) 2014-2020 between Ethiopia and the European Union	
4. Sector of concentration / thematic area	Focal Sector 1 Sustainable Agriculture and Food Security (Agroindustrial Development)	DEV. Aid: YES[1]
5. Amounts concerned	Total estimated cost: EUR 171 307 000 Total amount of EDF contribution EUR 45 000 000; of which: o EUR 16 700 000 for the contribution to the Africa Investment Platform o EUR 28 300 000 for project approach. This action is co-financed by: • Joint co-financing by African Development Bank (AfDB) for an amount of USD 15 000 000. • International Financial Institutions that will present a project proposal including the activities presented in component 2 to the Africa Investment Platform of the Blending Framework. • Parallel co-financing by Agricultural Transformation Agency (ATA) for an amount of USD 53 000 000 (Denmark and Norway grant) • Joint co-financing by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) for an amount of EUR 12 000 000 • Parallel co-financing by United Nations Industrial Development Organisation (UNIDO) for an amount of EUR 2 000 000 (Italy grant)	

[1] Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

<table>
<tr><td></td><td colspan="4">For Regional Blending Facilities: co-financed by entities listed in appendix 3.</td></tr>
<tr><td>6. Aid modality and implementation modality</td><td colspan="4">Project Modality
Indirect management with GIZ, UNIDO and AfDB
Indirect management with the Government of Ethiopia
The components regarding the Africa Investment Platform shall be implemented in indirect management.</td></tr>
<tr><td>7 a) DAC code</td><td colspan="4">32161-Agroindustries</td></tr>
<tr><td>b) Main Delivery Channel</td><td colspan="4">International Financial Institutions and Private Sector
Recipient Government 12000 and Public Sector Institutions 10000</td></tr>
<tr><td rowspan="12">8. Markers (from CRIS DAC form)</td><td>General policy objective</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
<tr><td>Participation development/good governance</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Aid to environment</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Gender equality (including Women In Development)</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Trade Development</td><td>☐</td><td>☒</td><td>☐</td></tr>
<tr><td>Reproductive, Maternal, New born and child health</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>RIO Convention markers</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
<tr><td>Biological diversity</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Combat desertification</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Climate change mitigation</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Climate change adaptation</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td>9. Global Public Goods and Challenges (GPGC) thematic flagships</td><td colspan="4">N/A.</td></tr>
<tr><td>10. Sustainable Development Goals (SDGs)</td><td colspan="4">SDG 9 – Build resilient infrastructure, promote sustainable industrialisation and foster innovation;
SDG 8 – Promote inclusive and sustainable economic growth, full and productive employment and decent work for all;
SDG 2 – End hunger by doubling agricultural production and small scale producers' incomes by 2030;
SDG 12 – Ensure sustainable consumption and production patterns.</td></tr>
</table>

Table of acronyms

ACC	Agricultural Commercialisation Clusters
AFD	Agence Française de Développement
AfDB	African Development Bank
AGP II	Second Agriculture Growth Programme
AIP	Agroindustrial Parks
AIPC	Agroindustrial Park Corporation
ATA	Agricultural Transformation Agency
ATVET	Agricultural Technical Vocational Education and Training
CVP	Communication and Visibility Plan
EDB	Ethiopian Development Bank
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GTP II	Second Growth and Transformation Plan
IFAD	International Fund for Agricultural Development
IFI	International Financial Institution
IPDC	Industrial Parks Development Corporation
LFI	Local Finance Institution
LOC	Line of Credit
MFI	Microfinance Institutions
MoAL	Ministry of Agriculture and Livestock
MoE	Ministry of Education
MoFEC	Ministry of Finance and Economic Cooperation
MoI	Ministry of Industry
MS	Member State
MSME	Micro, Small and Medium Enterprises
NIP	National Indicative Plan
OSH	Occupational Health and Safety
PAP	Processed Agricultural Product
PPP	Public Private Partnership
PROSEAD	Promotion of Sustainable Ethiopian Agroindustrial Development
RIPDC	Regional Industrial Parks Development Corporation
RSM	Risk Sharing Mechanism
RTC	Rural Transformation Centre
RUFIP	Rural Finance Intermediation Programme
RUSSACO	Rural Saving and Credit Cooperative
SME	Small and Medium Enterprises
SNNP	Southern Nations, Nationalities & Peoples
STEP	Sustainable Training and Education Programme
TI	Training Institutions
TVET	Technical Vocational Education and Training
VC	Value Chain
UNIDO	United Nations Industrial Development Organisation
UNOPS	United Nations Office for Project Services

SUMMARY

The action contributes to the Government of Ethiopia's Second Growth and Transformation Plan (GTP II: 2015-2020) to support the transformation of the economy from agriculturally driven growth towards a more industrial oriented economy. PROSEAD specifically contributes to the expansion of inclusive economic opportunities through Ethiopia's transition from an agricultural economy to a more industrial one.

The EU strategic objective is to increase decent employment and incomes for rural Ethiopians, particularly youth and women, in four environmentally sustainable agroindustrial parks and their agricultural production zones.

PROSEAD, identified via an EU-led inclusive consultation process, has five results:

1. Agroindustrial park (AIP) infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met;

2. The capacity and financial resources of microfinance institutions (MFIs) and local finance institutions (LFIs) to provide financial access to farmers, cooperatives, unions and small and medium enterprises (SMEs) operating in the value chains and in the AIPs are increased;

3. The capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agroprocessing markets are improved;

4. The skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are improved;

5. Coordination of all AIP stakeholders and governance of agroindustrial performance are made effective.

This EUR 45 000 000 action, financed from EDF resources, will leverage, at this stage, an estimated EUR 171 307 000 from the different donor partners contributing directly to the five results/components providing, therefore, a substantial contribution to the first phase of AIP development.

1 CONTEXT

1.1 Sector and Country Context

The population of Ethiopia is over 105 million, making it Africa's second most populous country, with a population growth rate of 2.85 % (2017) and more than two million young people entering the job market annually. High population growth coupled with poverty in rural areas are key drivers of migration. Most migrants from Ethiopia go to the Middle East and the Arabian Peninsula, driven by a lack of livelihood opportunities, especially for the young, 60 % to 70 % of whom are irregular migrants. While the profile of migrants from Ethiopia varies by destination, in general migrants are young, single, increasingly female and drawn from all regions. The majority of documented Ethiopian migrants who go to the Middle East are young women.

Gross Domestic Product (GDP) growth rate estimates in the past three years (2015-2017) have been above 8 % but below the 11 % annual target foreseen in Ethiopia's Second Growth and Transformation Plan (GTP II). Agriculture is the mainstay of the economy, accounting for 43 % of GDP, 76 % of national employment and 28 % of total export earnings. However, agro-processing only contributes 5 % of GDP, 1 % of employment opportunities and 2 % of exports, which explains why the trade balance for processed agricultural products (PAPs) remains substantially negative. Ethiopia's agro-exports are currently almost entirely limited to primary and unprocessed goods despite the increase in global and domestic demand for PAPs.

Foreign exchange earned from the export of commodities from 2011 to 2015 covered only 26 % of the cost of imported commodities.

Approximately 32 % of the country's manufacturing is in the food and beverage sector with over 880 food processing units. Many processors work well below full capacity due to a shortage of a timely supply of nationally produced raw materials in quantity, quality and consistency, the patchy presence of proximity service providers (input suppliers, credit providers, equipment dealers, etc.) supporting farmers, and the underdeveloped nature of the market and agricultural infrastructure.

Due to the combined growing demand of the domestic urban market and of the global market for specialised exports of agro-processed and high value commodities, private sector actors in Ethiopia are particularly investing in cereals, coffee, horticulture, livestock and honey.

A recent opening by the government to the private sector as well as the forthcoming legal recognition of contract farming and business engagement in direct commodity exports should accelerate SME and farmer investments in value chain development around agroindustrial park sites. The allocation of land and creation of incentives in the parks should spark the interest of larger enterprises in the AIPs.

The vast majority of Ethiopian farmers are not well integrated in commercial value chains and this is one of the reasons for the shortage of raw material inputs. The dominance of small-scale farming is another related constraint. Low access to finance, weaknesses in outgrower and farm supply contracts and the proliferation of intermediaries within an extended value chain also constrain the prospects of better returns to farmers, which in turn limit their ability to invest in production and post-harvest processes. Security of tenure has recently improved with the certification of user rights that recognise lifelong land occupation on condition of effective occupancy and farming.

Many women face restricted access to resources and services and lack control over household income. Although women's land rights are improving within the country, there is still a tendency in the rural community to disregard such rights; particularly after the divorce or death of the husband. Female-headed households are in general at a disadvantage with regard to plot size, land and asset ownership, access to finance and access to training despite government efforts to redress these imbalances.

1.1.1 Public Policy Assessment and EU Policy Framework

Agriculture is a priority in the Second Growth and Transformation Plan (GTP II) to support the transformation of the economy from an agrarian one towards a more industrially oriented economy, in order to make agriculture and agribusiness more efficient, productive and competitive.

To achieve this, the Government of Ethiopia aims to develop seventeen agroindustrial growth corridors with corresponding AIPs that will process the agricultural raw materials that are produced in the corridors. Four initial AIP locations have been chosen in the regions of Amhara (Bure), Oromia (Bulbula), SNNP (Yirgalem), and Tigray (Humera). The remaining 13 AIPs will be developed in a second phase.

Over USD 200 000 000 have been allocated in government loans for the development of common park infrastructure as well as for the secondary Rural Transformation Centres (RTC). Business premises (such as sheds) initially costed in the 2015 AIP feasibility study will now be left for private investors to build, while collection centres to aggregate produce from farmers should be developed by government agriculture programmes. Civil works are ongoing in three of the parks, with an expected date of completion in the first semester 2019, though there is still a funding gap to address the low-waste standard recommended by the United Nations Office for Project Services (UNOPS) environmental assessment as well as for the completion of social infrastructure in the parks.

Government funding was also allocated in 2016-2017 to provide compensation to resettled farmers previously living on AIP sites following the recommendations of the Resettlement Action Plans developed in a participatory manner by UNOPS. For instance, in the Amhara region compensation was provided in cash to invest in new livelihood activities as well as through allocations of urban plots amounting to $450m^2$ of land per household head with an additional $150m^2$ of land for each child of the compensated household. Resettlement Action Plans are still in effect and monitoring will continue to ensure locals are fairly compensated.

The four AIPs are projected to attract a total 400 local and foreign agro-processors and to create more than 400 000 direct jobs. The Ministry of Industry (MoI) is in the lead, whereas AIP construction and management are the responsibility of the four Regional Industrial Parks Development Corporations (RIPDC).

In parallel to the AIP initiative, GTP II emphasises the development of farmers' production and marketing groups through farm clusters. This is being brought about through the Agricultural Commercialisation Clusters (ACC) initiative implemented by the Agricultural Transformation Agency in complementarity, when covering the same areas, with the Second Agricultural Growth Programme (AGP II) whose part in these activities will be refocused onto the supply of raw materials for the parks.

The success of the AIPs will also rely on the successful implementation of the National Financial Inclusion Strategy which aims to increase the number of account holders transacting through financial institutions or mobile money providers from 22 % to 60 % of adults by 2020.

The proposed action is part of the Sustainable Agriculture and Food Security Focal Sector I of the 11^{th} EDF National Indicative Plan (NIP) for Ethiopia (2014-2020). Generally, this action is also line with United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG 9 to Build Resilient Infrastructure, Promote Sustainable Industrialisation and Foster Innovation to: raise industries' share of employment creation; increase access to affordable credit for SMEs in the value chains and markets; enhance research and upgrade technical capabilities; and promote sustainable and resilient infrastructure. The action also promotes progress towards SDG 2, which by 2030 aims to end hunger and targets doubling agricultural productivity and incomes of small-scale food producers, in particular women and indigenous peoples. It also contributes to SDG 12 and the attainment of targets 12.3 on the reduction of food losses along production and supply chains, including post-harvest losses, and 12.2 on the efficient use of natural resources.

Moreover, the action is in line with the Valletta Action Plan (i) to promote inclusive and sustainable economic growth, full and productive employment and decent work for all; and (ii) greater economic and employment opportunities in the selected value chains with the overall aim of reducing rural-urban migration. Finally, the action's approach to support private sector actors is in line with the European Commission's Communication on a stronger role of the private sector in achieving inclusive and sustainable growth in developing countries[2].

[2] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries, COM(2013)263 final of 13.5.2014.

1.1.2 Stakeholder analysis

Primary stakeholders include;

Unemployed women and youth: 64 % of the Ethiopian population is below the age of 24, of which 33 500 000 are female. There was an average unemployment rate of 19.9 % from 1999 to 2015. Every year, more than two million young people join the labour force with limited employment opportunities. A scarcity of productive land and the diminishing capacity of the land to produce economic returns forces young people to seek employment out of farming and to migrate to urban and semi-urban areas. The share of employment in agriculture is currently estimated at 75 % and is expected to decline to 67.5 % by 2020. A UN Women report indicates that the unemployment rate for women between 2005 and 2013 was significantly higher than that for men. During this period, male employment in 2005 was 84.7 % and in 2013 it was 82.7 %, whereas the employment of females remained stagnant at 69 % and 69.8 %, respectively.

Smallholder farmers produce 97 % of agriculture output, including in AIP catchment areas. The key constraints limiting their performance are their tiny individual plots, and their low access to finance, markets, technology and inputs to increase productivity. Opportunities include the countrywide presence of extension workers, support through government flagship programmes, and the readiness of buyers to pay premiums for quality raw materials.

Farmers' Primary Cooperatives and Unions: These include cooperatives that are formally established and registered as legal entities and engaged in agricultural input supply, aggregation of agricultural products and primary value addition. The key constraints affecting those stakeholders are the weak quality compliance of their members, low management, financial management and business planning capacities, lack of proper storage facilities or access to finance, etc. Opportunities are the recent easing of marketing regulations to allow direct trade, contract farming and out-grower schemes, and the growing demand for quality raw materials etc. Women are greatly disadvantaged in comparison to men in accessing the services provided through agricultural cooperatives. Recent data from the Federal Cooperative Agency shows that men represent 74 % of cooperatives and women 26 %. However, a large percentage of these women are predominantly in saving and credit cooperatives and not in productive agricultural cooperatives.

Micro, Small and Medium Enterprises (MSME): Private value chain actors and service providers play a key role in commodity value chains through input supply, contracting, trading, processing, storage, wholesaling and retailing, mechanisation services and machinery operation and maintenance. The key constraints affecting those stakeholders are weak access to financial services, low administrative, financial and business planning capacities, low access to appropriate technology. With cluster development and land consolidation, opportunities for MSME service providers exist in mechanisation contracting services, standards compliance and rural microfinance. According to the Ethiopian Central Statistics Agency women own 73.5 % of microenterprises, 13.7 % of small enterprises in manufacturing industries, and 30 % of medium and large enterprises in industrial activities.

Local Finance Institutions (LFI): Inadequate usage and access to financial services are a major bottleneck in rural areas mostly for youth and women[3]. Penetration of the LFI in rural area is also limited, although improving with Microfinance Institutions (MFI), about 9 000 Rural Cooperative Banks (RUSACCO) and still a limited network of rural commercial banks. All

[3] Only 22.79 % of Ethiopians older than 15 have accounts at financial institutions.

are suffering from lack of liquidity, but also capacity to handle farmers and SMEs increasing demand for finance.

The Government of Ethiopia - Federal entities: These are: (i) the Ministry of Industry, tasked to promote secondary processing and mandated to lead AIP development, (ii) the Ministry of Agriculture and Livestock, responsible to promote productivity increases, supply of quality raw materials and the promotion of primary processing, (iii) the Ministry of Finance and Economic Cooperation, tasked with fund mobilisation for the AIP initiative, (iv) the Agricultural Transformation Agency, which is mandated to transform traditional agriculture into a commercially oriented sector and (v) the Ethiopian Investment Commission, whose mandate is to attract foreign investors. The key constraint today is the inter-institutional coordination and the ability to tackle governance issues affecting agroindustrial development with effective private sector participation.

The Government of Ethiopia - Regional Agencies: These are: (i) the RIPDCs mandated to manage the AIPs development, (ii) the Regional Bureaus of Agriculture, (iii) the Regional Agricultural Research Institutes, (iv) the Regional Investment Commissions (v) the Regional Trade, Industry and Market Development Bureaus, (vi) the Regional Livestock Agencies. One key challenge is the lack of experience in the country to manage parks and deal with private entities and to coordinate with government and all actors in the supply chains. Opportunities are the Agricultural Commercialisation Clusters (ACC) established by ATA and the improved coordination brought by this programme.

Training Centres: Agricultural Technical Vocational Education and Training (ATVET) centres and TVETs are mandated to provide technical and vocational training and develop a skilled work force in manufacturing, service, construction, and education as well as agricultural production and processing. The key constraints are a lack of appropriate or well-maintained facilities and adequate curricula for the different users and needs.

Development partners: Donors, financial institutions and UN agencies. EU+ Joint Agricultural Framework (JAF) stakeholders are detailed in section 3.2 below.

1.1.3 Priority areas for support in relation to the problem analysis

Recognising that the highlands of Ethiopia have the agro-ecological potential to sustain large agroindustrial investments, the following problems should be addressed to sustain the agroindustrialisation objective of Ethiopia:

Problem 1: Difficulty to mobilise domestic and foreign investment in agroindustry mainly caused by:

a) The general difficulty of doing business, particularly in rural areas: access to land and government red-tape that hampers the fluidity of agriculture supply chains.
b) The additional cost of meeting environmental and social compliance, enabling in turn private sector investment to be compliant.
c) The absence of secondary transformation capacity to expand the supply chain in a larger catchment with the first stages of value addition.

Problem 2: Inconsistency of farm supplies and the low quality of farm products supplied as reflected by seasonal high price variations; 1 to 20 for some of the perishable products. This key problem is caused by:

a) Limited capacity of farmers to invest in food production system which is in turn because of low access to market and low return for their crop (at current quality and timing of delivery).
b) The dependence on rain-fed agriculture for a large part of the smallholders.
c) Limited and unfavourable access to finance for the farmer cooperatives and for MSMEs involved at all levels of the value chain development, from farmer's first level of aggregation to agro-processing.
d) Weak governance in the value chains as reflected by the low synergy between government, development partners and private sector investment including farmers' in a truly inclusive PPP dialogue.

Problem 3: Skill gaps at all levels: from the farmers, MSMEs staff to the industry staff workers and managers.

Problem 4: Women tend to be marginalised and, despite advances, women still have low access to assets, are excluded from decision and given access to low skill jobs only.

In relation to the problem above the priority areas for the EU support should be:

Acknowledging the pertinence of the AIP government strategy and its current level of investment to complete the main horizontal infrastructure by early 2019, The first priority of the EU support should be to address the funding gap needed for the AIPs to achieve environmental and social compliance as well as to complete development of the RTC needed along the progressive occupation of the Parks.

Acknowledging the pertinence of the National Finance Intermediation Strategy and the current level of government investment in the Rural Finance Intermediation Programme (RUFIP) and its recent policy move to open more the financial sector to the private sector; the second priority of the EU support should be to facilitate access to finance for the different players of the value chain in the park catchment areas.

Acknowledging the pertinence of the Agriculture development strategy as well as the current level of Government and development partners' investments in the Agriculture Growth Programme in the Agriculture Commercialisation Cluster Programme, in the small-holder farmer Irrigation Programme (PASLIP) and in the specific value chain programs implemented by EU Member States and private sector cooperation; the third priority of the EU support should be to address bottlenecks constraining farmers' access to market in order to accelerate the impact of current investments addressing agriculture productivity including addressing the high level of land fragmentation with farmers having on average less than 0.5 hectares per farm.

Finally, acknowledging the pertinence of the government's priority to create jobs for the youth and transforming the role of women in the society as well as its current level of investment in ATVET, TVET, and women's protection and empowerment; the fourth priority of the EU support should be to address the specific skill needs that the development of the parks will create with a specific focus to ensure better employment opportunities for gender equity at all level while ensuring the application of decent job conditions.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)[4]	Mitigating measures
Low capacity of the different government agencies to coordinate, manage and monitor the AIP and agroindustrial development.	M	Each component of the action incorporates capacity development activities to re-inforce the implementing government agencies as well as the coordination between programmes and associated implementing partners.
Inadequately developed value chains may not fully satisfy agroindustrial demands for raw materials.	M	Given that PROSEAD will synergise with existing programmes and address supply chain bottlenecks, value chain constraints can be alleviated either by the project itself or by the associated programmes, including private sector's interventions.
Weak inter-agency and donor coordination.	M	The governance of PROSEAD takes into account the performance of associated programmes and should enable adequate coordination.
Low private sector interest in establishing processing units within the AIPs.	L	The PROSEAD project components are elaborated in such a way that the private sector processing and marketing enterprises will have the raw material production base regardless of whether they are located in the AIP or not. The skill-set of the trained unemployed youth and women will be appropriate for the needs of the agro-enterprises. With EU funding leverage to IFIs for onward lending risk will be softened.
The effects of climate change may damage project investments and affect the production base.	L	The infrastructure supported by the project takes into account climate resilience and will have adaptation measures incorporated in the design and processes as part of the lending eligibility criteria and risk assessment.
Interruption of power and water supply to the AIPs.	L	While national utilities provide notoriously unstable service nationally, the AIPs will have dedicated supply channels, including their own borehole water sources. Connections to the electricity grid can be reinforced with partial back-up systems financed under Component 1 (e.g. solar power systems).
Lack of adequate social and environmental policies.	M	An Environmental and Social Impact Assessment (ESIA) has been conducted and improved for each AIP. Additional infrastructure needs under Component 1 will also be subject to ESIAs. ESIAs incorporate their own mitigating measures.

[4] Risk level: H=High, M=Medium, L=Low.

Scarcity of veterinary services and products.	M	The upcoming EUR 15 000 000 EU-funded Health of Ethiopian Animals for Rural Development (HEARD) will address some of the causes of the scarcity.

Assumptions

1. The Government of Ethiopia continues to show strong support for the value chain and agro-processing initiatives, keeping its current PPP approach and leadership to open up to the private sector.
2. The budget allocations to the AIPs and their production zones remain sufficient to achieve outputs.
3. Security and stability is in place in the regions, including compensation mechanisms in case of acts of destruction of productive assets as part of the investment protection framework.

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Lessons from similar agroindustrial development initiatives in India, Mexico, Argentina and Peru have shown that:

a) Primary and secondary processing infrastructure should not be established without considering whether primary agricultural products can be supplied in the volume and quality required over the processing cycle and over the years. Without a robust raw material supply base, any agroindustrial development initiative will fail. Examples of such successes are found in Tucuman Province, Argentina (lemons - fresh, juice, zest, pectin, aromas and essential oils); Guanajuato State, Mexico (fresh and frozen vegetables) and the coastal region of Peru (fresh and preserved asparagus).
b) The market is the basic driver of all VCs in order to create a pull effect on agricultural production. Once the market requirement is identified, detailed VC analysis is required to determine barriers to entry, crop variety, seasonality and delivery times, safety and quality standards, packaging, pricing etc.
c) Access to credit is essential for all value chain operators; access to credit enables the VC operators to modernise, innovate and differentiate products.
d) Systems must be developed and put in place to allow for new techniques and technologies to raise agro-processing productivity and to train staff and stakeholders in the value chain on new skills needed to bring about innovations.
e) Government plays a critical role in agribusiness development when it focuses on: i) fostering a dynamic dialogue with private sector actors to address issues and develop strategies; ii) ensuring coordination and coherence of government approaches among its different entities and between the regional and federal levels; iii) ensuring enforcement and security of contracts on agreed standards within the industry and iv) relaxing stringent regulatory frameworks.

The following lessons on farmers' integration of commercial farming have been gathered:

a) Farmers' integration into commercial farming requires new skills and a high level of product specialisation which exposes farmers to more risks, particularly to market related and climate change risks while mono-cultivation and single variety dependence could lead to soil depletion. If not managed properly, this can impact on farmers' economic model and household nutrition.
b) The development of incentives as part of a contractual crop delivery system is required to integrate small-scale farmers to commercial farming and further to make them participate fully in the continuous quality enhancement process required by

agroindustry. The primary responsibility for those incentives lies, at term, with the private sector.

c) Timely access to required agro-inputs in a sufficient quantity and quality is of the essence.
d) Government plays a critical role when it focuses on: i) Alleviating basic infrastructure bottlenecks (feeder and market access roads, electricity, water storage, large irrigation systems, etc.); ii) Opening up its research and innovation to private sector participation with a continuous revision of extension service curricula; iii) Ensuring that farmers outside commercial farming arrangements are gradually trained to facilitate their progressive insertion; iv) Strengthening producer organisations to consolidate farmers' production, but also ensuring better returns to farmers and an increase participation in VC development.

Lessons learned on rural job creation is that enterprise development needs to have a sufficient labour pool with both cognitive and technical skills with therefore a need to adapt training curricula for particular value chains and for new job opportunities on and off farm. Lessons learned on women's integration are detailed in the annex on cross cutting issues.

Finally, in term of access to finance, the mid-term evaluation of the RUFIP 2 programme has indicated the overall good performance of the loan portfolio MFI (80 %) RUSACCO (98 %) but also that only 12 % of the loan requests are actually satisfied reaching 5.9 million clients at mid-term. Women membership in RUSACCOs and MFIs has been respectively 45 % and 50 %.

3.2 Complementarity, synergy and donor coordination

Under the responsibility of the Ministry of Industry as part of the country programme of UNIDO (Programme for Country Partnership), an overarching coordination structure has been developed between government and development partners for the development of the four initial AIPs.

In response to a request for support, the EU Delegation, Member States and other associated development partners involved have developed an EU+ support framework to contribute to the implementation of a coherent agroindustrial strategy. Appendix 1 of this Action Document describes the integration of the existing cooperation activities in this framework creates synergies between development partner initiatives, within which this action will play a central role.

In terms of resource mobilisation, the following has been achieved in terms of direct support:

- The Italian Development Cooperation Agency is implementing a grant-and-loan based project to support the development of the Oromia and SNNPR AIPs including cooperation between the Emilia-Romagna Region of Italy and the two regional parks as well as technical assistance (mainly preparatory studies) through the Food and Agriculture Organisation (FAO) and UNIDO.
- Bilateral negotiations are taking place between Ethiopia and China for the development of a fifth park, focussing on the meat and livestock value chain, through a concessional loan and tied aid.
- The proposed PROSEAD so far associating direct funding from African Development Bank associated with the Korea Exim Bank, Agence Française de Développment, IFAD, Agriculture Transformation Agency and Germany.

Complementing the above, two major programmes will directly contribute to the development of agriculture productiveness in key value chains in the catchment areas of the AIP; they are:

- The AGP Phase II (USD 583 000 000) is supporting increases in agricultural yields and commercialisation in 163 high potential *woredas* (districts). This programme is implemented by the Ministry of Agriculture and Livestock and financed by the Government of Ethiopia, the World Bank and, as part of a multi-donor trust fund, the EU (EUR 45 000 000), the Netherlands and USAID. AGP II has been directed to refocus its work on commodities to align with an agroindustrial park input requirements.
  The mobilisation of some of the components of this flagship programme will be essential for the success of the AIPs and include a) Research and extension, b) Public extension services, c) Small-scale irrigation, d) Agriculture marketing, e) High quality input supply, f) Mechanisation services, g) Marketing including market infrastructures, h) Targeted support to VC development and i) Farmers' organisation.
- More focused on specific value-chains[5] with a private sector approach relevant for agroindustry; the ACC (USD 300 000 000) is being implemented by ATA along seventeen agro-ecological corridors that overlap with the AIP catchment areas. ACC is government- and donor-funded including by The Netherlands, Denmark, Ireland, Norway and Bill & Melinda Gates Foundation.

Appendix 1 details the donor matrix of projects and parallel support that are relevant to this particular action through (i) supporting public and private sector investments in agroindustrial development and (ii) VC support through assisting the primary production and processing base.

Finally, private sector investments are taking place with substantial investments for the following agribusinesses:

- <u>Horticulture</u> There are 130 investors now operating in the horticulture sector and more than 21 fruit and vegetable industries[6] generating over USD 300 000 000 export and employing more than 6.8 million smallholder farmers.
- <u>Malt barley</u>: There are four internationally known companies operating covering about 60 % of the market needs and using locally produced 120 000 tonnes malt barley with smallholder farmers (expected to grow to 200 000 tonnes by 2020).
- 23.1 million tons of cereals are annually produced by more than 14 million smallholder farmers for the <u>cereal industries</u>. However, due to limited availability and quality problems, 66 % of the wheat requirement is imported.
- With an annual production worth close to USD 2 000 000 000, <u>coffee</u> is the major export commodity (USD 800 000 000 annually) and the main foreign currency earner for the country with plenty of room for increase given current low yield and the demand for quality coffee.
- With about 49 000 tonnes[7] produced annually, <u>honey</u> is also a major value chain providing for 1.8 million beekeepers a substantial income. Despite the huge potential in the country, traditional beekeeping is inefficient with low yield, leaving plenty of opportunity for improvement.
- <u>Meat and leather</u>: there are 15 export-oriented abattoirs in the country with different levels of ownership, management and hygiene and sanitary systems. The country has 23 commercial tanneries, eight leather goods producing facilities and seventeen footwear manufacturers, of which fourteen are engaged in exporting. About 1 000 small and micro-enterprises are also engaged in the production of footwear.

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5 Wheat, tomato, sesame, teff, maize, malt barley, haricot beans, banana, avocado and apiculture products.
6 The Ministry of Industry.
7 Central Statistical Agency (CSA) 2015.

- Dairy: There are about 35 active dairy processors in the country. Most of the dairy processing companies have excess capacity for most of the product types[8] due to the poor quality of the final products, zero export and a domestic market strongly constrained by animal products fasting.

So far, two international Agroindustry Forums have been organised by UNIDO in Addis Ababa for the purpose of attracting private agro-processor investors to the parks, and similar forums will be hosted in the subsequent years.

3.3 Cross-cutting issues

Gender: Women's participation in leadership was promoted during the first Growth Transformation Programme (GTP1). The proportion of women with parliamentary seats, in the judiciary and political leadership and executive bodies at the federal level reached 27.8 %, 20.6 % and 9.2 %, respectively. However, women's participation in leadership is still considered to be low. The key GTP2 gender policy priorities are: to increase women's access to quality agricultural extension services; to increase the supply of farming and agricultural processing technologies that minimise women's workloads; to address the infringement of the land use rights of female-headed households; and to support an adequate supply of credit services, especially for poor women. Gender equality and women empowerment are cross-cutting priorities for PROSEAD and are incorporated in its design particularly with respect to: (i) equal access for women to technology and extension services on- and off-farm (ii) provision of enhanced employment opportunities for women in agro-processing and in the agroindustrial parks in particular (iii) encouragement of women to play a greater role in marketing and (iv) increased opportunities to empower women in decision-making and management processes.

This action is expected to generate entrepreneurial and job opportunities for women in agro-processing and allied sectors, and will provide them with targeted and customised training in basic skills, food technology and business skills. Targeted outreach activities will be organised specifically for women; wherever possible in localities convenient to them. A value chain gender analysis study will be undertaken for each value chain to serve as a baseline at the point of implementation.

Youth employment: With an estimated two to three million young people entering the job market annually, increasing employment and business opportunities for youth is imperative. Increased rural job creation is necessary to moderate rural-urban and cross-border migration flows. Internal migration in Ethiopia is thought to be larger than external flows and rural-urban migration to improve livelihoods is growing, in particular for young people, and is often a first step towards international migration. Peer and family pressure can lead to a "culture of migration" amongst young people, where migration is associated with personal, social and material success and staying at home with failure. Migrants tend to be young and single with most migrants between the age of 18 and 259.

There is a need to invest in: (i) appropriate on-farm and off-farm skills training for youth (ii) labour intensive agro-processing industries and value chain service providers that generate employment (iii) credit and technical support for small and medium enterprise development and start-ups, by youth, particularly in the allied agricultural and non-farm rural sectors (iv) and small-scale irrigation, which would increase the productivity of existing land during dry seasons and droughts. The Action will support the federal and regional governments and the

[8] AACCSA-TaP, Value Chain Study on Dairy Industry in Ethiopia, 2016.

[9] Frouws, B. (2014) Blinded by Hope: Knowledge, Attitudes and Practices of Ethiopian migrants. Nairobi: The Regional Mixed Migration Secretariat.

private sector to provide more productive employment and meet growing livelihood aspirations. There is a need to go further and include skill requirements that relate to service provision, operations and maintenance, sales and marketing, management, accounting, entrepreneurship and other soft skills.

Environment: The action is expected to bring positive environmental benefits through the introduction and expansion of environmentally friendly technology and infrastructure in the agroindustrial parks and their catchment areas. In addition, some or all of the following environmental protection activities will be rolled out through a refocused AGP II and a new contribution to the ACC: technology applications that help improve cropping patterns and farming methods, increased efficiency in the management of water resources, protected agricultural soils and enhanced integrated pest management. If necessary, an environmental assessment and management framework is to be prepared to guide the environmental screening of any new sites within the project implementation cycle being: (i) infrastructure pre-construction (ii) the construction phase and (iv) during the operational phase. UNOPS has already completed Environmental and Social Impact Assessments for the four agroindustrial parks that are currently under construction.

Climate change adaptation: Ethiopia is one of the world's most drought-prone countries and it is also particularly vulnerable to climate change (though it has contributed little to global CO^2 emissions) with as a result: growing intensity of rain storms, erratic rainfall and more frequent droughts impacting negatively on farmer productivity. Climate change adaptation is integrated in this Action in Component 1 with the infrastructure being compliant to environmental standard and by promoting climate smart agriculture in Component 3.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The Overall Objective or Impact:

Inclusive economic opportunities are expanded through Ethiopia's transition from an agricultural economy to a more industrial one.

The Specific Objective or Outcome:

Decent employment and incomes are increased for rural Ethiopians, particularly youth and women, in four environmentally sustainable agroindustrial parks and their agricultural production zones.

This action has five expected results:

1. Agroindustrial park infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met.
2. The capacity and financial resources of microfinance institutions (MFIs) and local finance institutions (LFIs) to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the AIPs are increased.
3. The capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agro-processing markets are improved.
4. The skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are improved.
5. The coordination of all AIP stakeholders and the governance of agroindustrial performance are made effective.

4.2 Main activities

Component-Result 1: Agroindustrial park infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met.

The beneficiaries of this component are the regional Industrial Parks Development Corporation (IPDCs), who are also the owners of the parks' common infrastructure. Exact allocation to a particular corporation will be decided by the MoFEC and MoI in the final planning stage based on resources already allocated and work in progress. The main activities under this component will be:

Related to infrastructure development:

i. Assessment of building and technical gaps to achieve environmental and social compliance requirements for each park's common infrastructure. This assessment will include parallel funding that will be provided by bilateral cooperation, i.e. Italy's at this stage.

ii. The action will contribute to the construction of:
   - Environmentally compliant and climate-resilient common infrastructure on the AIPs, such as water catchment and recycling, improved wastewater and solid waste management systems and renewable energy. It could also contribute to energy efficient buildings and the like;
   - Socially valuable facilities that may include child daycare centres, showers, green spaces and other such infrastructure;
   - Environmentally compliant and climate resilient common infrastructure at selected RTCs where PROSEAD could support cluster development under Component 3. This includes, when needed, common warehouses that small entrepreneurs will be able to acquire by means of a financial contribution. Component 2 will facilitate access to credit for those SMEs.

iii. Referral of Aggregation Centre construction needs for financing consideration by associated government-donor funded programmes implementing Component 3, when there are no private or cooperative entities capable of developing them.

Related to capacity building:

i. Capacitate selected IPDCs in industrial park infrastructure development including compliance with environmental and social regulations and standards (including working hours, child labour, etc.) and finance and contracts management.

ii. Capacitate IPDCs technical management teams in the management of park operations and maintenance of the parks in terms of the environmental and occupational health and safety (OSH) and emergency response procedures.

iii. Capacitate IPDCs park management teams to administer the parks in relation to park occupants, park commercial strategy, park coordination needs to facilitate the supply chain and parks facilitation on labour issues.

EU Grant: All the activities under this component will be jointly supported by the grants from AfDB and the EU. In addition, activities related to Park infrastructure development will also be supported by parallel loan finance separately concluded by the Government of Ethiopia with the Korean Exim Bank.

In term of government ownership, the IPDCs will receive the combined funding along with government allocation from the Treasury for implementation.

Additionality of EU funding is two-fold; to facilitate the mobilisation of AfDB grant funding and indirectly to leverage the mobilisation of Korean Exim Bank loan finance at concessional terms.

Component-Result 2: The capacity and financial resources of MFIs and LFIs to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the AIPs are increased. This result has two sub components:

Sub-Component 2.1 - Access to finance for farmers, primary cooperatives and unions

The activities foreseen here below are to be financed through the blending framework and will contribute to the third phase extension of RUFIP programme. This programme targets MFIs and RUSACCOs, which are recognised finance providers working under the supervision of the National Bank of Ethiopia. The indicative activities foreseen are:

i. Establishment of a targeted line of credit (LOC) geographically available in park catchment areas for farmers, primary cooperatives and unions to seize new market opportunities offered by agroindustry on a loan finance basis.

ii. A blending component linked to the LOC to mitigate the risk and costs of finance in the catchment area of the AIPs targeting productivity-enhancing capital investment of farmers with a specific focus on woman farmer single headed families and young farmers.

iii. The provision of capacity building to MSMEs servicing farmers to ensure viable business plans and respect environmental and social standards.

iv. The provision of capacity building to the Ethiopian extension services to support farmers to increase their production and productivity; enhance the quality of their products; get access to markets; and integrate agro-environmental measures.

v. The provision of capacity building to MFIs and RUSACCOs to manage their loan portfolio and re-finance their operations (in relation to component 2.2).

vi. The provision of capacity building to MFIs and RUSACCOs to enhance/ensure coordination with other finance access/deepening programmes in the park catchment areas such as AgroBig in Amhara and others as well as with park corporations and agroindustrialists.

EU Funding: these activities could be supported through blended financing in the form of a loan (activity i) and blending component to be defined for specific cases (activity ii)) and technical assistance (activities iii) to vi)) and could be part of RUFIP III programme. The Government of Ethiopia has engaged in negotiations with IFAD. Synergies, complementarities and coordination will be sought with other on-going or future agriculture blending projects like EDFI-AgriFI (FMO), AATIF (KfW), Huruma Fund (COFIDES) and ABC Fund (IFAD).

In terms of government ownership, the Development Bank of Ethiopia would receive the combined funding for implementation with the MFIs and the RUSACCOs.

Additionality of EU funding is to facilitate the mobilisation of a concessional loan by covering a large part of the investment grant component and the capacity building cost. This will also enable RUFIP III to integrate a specific focus on AIPs' catchment areas.

Sub-Component 2.2 - Access to finance for SME actors in the supply/value chains

The main activities proposed here below are to be funded through the blending framework and will target commercial banks having a network in the parks catchment areas (three banks currently expected to increase to five). The indicative activities foreseen are:

i. The set-up of a Risk Sharing Mechanism (RSM) facility to ease and lower the cost of finance for the investors putting new processing and/or supply chain capacities in or outside the AIPS.

ii. The provision of capacity building to commercial banks to, for example:
   - Manage SMEs' agriculture and agro-processing loan finance portfolio, including the use of guarantee funding.
   - Integrate processes in their loan application screening to ensure compliance of environment and social norms (including specific gender targeting).
   - In relation with component 2.1 re-finance MFI and RUSACCO operations.
   - Coordinate with other finance providers broaden access to facilities such as EIB leasing and SME credit lines and others.
   - Develop specific strategies and products for rural finance.

iii. The provision of capacity building to agri-business SMEs to ensure the development of viable business plans in order to increase productivity; be energy-efficient; be in compliance with environmental, social and fiscal norms and standards; and provide job opportunities for women and youth. This could include the development of an incubator unit for advice on access to markets, skill, finance, networking and business formulation. This capacity building could also include an element of matching grants for high potential SMEs.

EU grant: All the activities under this sub-component are foreseen to be implemented through blending in the form of a concessional loan for activity i) and grants for technical assistance for activity ii). Negotiations are on-going with several IFIs, but the proposal made by the *Agence Française de Developpement* seems to be the most interesting and relevant. ATA will be associated with the implementation of activity iii) with a grant of EUR 5 000 000.

In terms of government ownership, ATA is part of the implementation and will coordinate with the Regional Bureaus of Agriculture and the AIPC.

Additionality of EU funding is two-fold; to enable access to a concessional loan and to expand the role of the ATA in facilitating agro-based SMEs in their access to finance.

Component-Result 3: The capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agro-processing markets are improved.

The main activities under this component will be part of the Agricultural Commercialisation Clusters (ACC) programme and will address the constraints using where necessary EU funding, and leveraging wherever possible the support provided by AGP II, other government programmes and specific development partner and/or private sector projects as described in paragraph 3.2

Based on current bottlenecks/constraints, the following activities will be supported:

i. Address fragmentation of land tenure with aggregation of individual plots in consolidated blocks of arable lands, when possible and always upon the farmer's request. This activity will be accompanied by the introduction of modern machinery (mechanisation) and soil conversation technologies and practices.

ii. Provide support to farmers to secure fair contracts with intermediaries/processors (ideally through contract farming). This includes trainings on quality and sustainability production standards/practices and requirements as well as on negotiation/entrepreneurship.

iii. In conjunction with industry needs, develop cropping packages for the selected commodity through the use of existing regional research resources and industry research and development (R&D) back-up teams.

iv. Address post-harvest losses and continuity of supply with proximity storage and first stage processing. Storage facilities will be built with financial contributions from larger investors and in-kind contributions from cooperatives, thereby fostering ownership over these resources in a legal and participatory sense.

v. Develop and test gender and youth inclusion packages to mainstream at all levels of value chain development.

vi. Provide the link with component 2.2 so that smallholders can get access to credit thereby fostering agriculture modernisation and the continuity of supply in the value chains.

EU Grant: All the activities under this component will be supported by an EU grant to ATA to cover activities among those described in i) to vi) identified to alleviate supply bottlenecks/constraints in a dialogue with the agroindustrialists progressively occupying the parks. The EU grant will rely on the VC analysis that ATA has already conducted and periodically updates. The EU grant will be a parallel financing to the grants provided by Denmark and Norway for the additional ACC activities covering the AIP catchment areas.

In terms of government ownership, ATA is part of the implementation and will coordinate with the Regional Bureaus of Agriculture and the AIPC.

The additionality of the EU funding is: to re-enforce the focus of the current ACC programmes on alleviating supply bottlenecks/constraints that will arise with the development of agroindustry; to develop synergies with the AGP and other donor programmes focusing on specific value chains; and to leverage additional grant funding provided by other donors.

This component is entirely complementary with the USD 583 000 000 AGP II programme (2015-2020), to which the EU contributes EUR 45 000 000 through a multi-donor trust fund. Since its inception, AGP II has targeted districts of Ethiopia with the highest agricultural growth potential, and the political will exists to further refocus AGP II resources to link its upstream productivity enhancement work with supply chains that will allow raw materials to flow toward the AIPs.

AGP II is working with small-scale farmers to increase their crop productivity through the following: provision of inputs (improved seeds and fertiliser); construction of small-scale irrigation schemes to extend the growing season and protect crops against drought and climate change; provision of agronomical advice and training through extension activities; provision of storage units to decrease post-harvest losses, and other activities. AGP II has three cross-cutting priorities it is mainstreaming through linkages between agricultural research facilities and the extension service, namely climate-smart agriculture, nutrition sensitive agriculture to enhance dietary diversity, and gender equity to facilitate the agricultural work of female-headed households.

ACC and AGP take different and complementary approaches to address the same fundamental problem: how to transform low-yield Ethiopian agriculture by increasing the productivity and market orientation of small-scale farmers, which constitute the vast majority of farmers. Both programmes will play a key role in the country's agroindustrialisation process.

Component-Result 4: The skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are improved.

This component will address critical skills gaps on various competency levels in the agroindustrial sector and value chains including the use of apprenticeships and on-the-job training will be part of this component. The activities will include:

i. Technical support to: a) improve existing training systems/practices; b) develop a cooperation mechanism between industry and training institutions; c) strengthen capacities of private and public key actors in technical and vocational training; d) develop a comprehensive decent employment curriculum and application guidelines; e) support the dialogue between private and public actors in the above.

ii. Support different targeted training programmes with the use of: a) non-formal TVET and short terms training to deliver basic required skills; b) the cooperative training models to qualify skilled personnel in industrial processing; c) short-term course to further qualify semi-skilled personnel in more specialised skilled; d) training of trainers and teachers including updating curricula; e) specific training on employment creation measures and formation of micro-entrepreneurs for service providers and suppliers in catchment areas; and f) short-term certificate and refresher courses in life skills/work practices, occupational health and safety hazard and environmental standards.

iii. To improve the operational standards of TIs, to further develop training curricula suitable to the various stages of agro-processing together with the relevant equipment needed at the initial stage.

iv. Support the rehabilitation and modernisation of selected TIs when needed and in coordination with Component 1 to avoid overlap.

v. Synergise with the agriculture technical training activities developed as part of the Green Innovation Centre and other programmes supporting acquisition of skill along value chain development benefiting Agriculture TI, service providers, SMEs and Cooperative and Unions.

vi. Establish a special training programme for agroindustrial workers, investors and AIP managers (IPDCs) on their rights and responsibilities with regard to the decent work agenda.

<u>EU Grant</u>: All the activities above will be supported by an <u>EU grant</u> to a new phase of the STEP programme. The EU grant will be a joint co-financing to the grants provided by Germany.

In terms of <u>government ownership</u>, STEP implementation is governed by an agreement with the Ministry of Education and Ministry of Agriculture for the use of the government network of TIs.

The <u>additionality</u> of the EU funding is: to reinforce the focus of the current STEP programme on AIPs and their catchment areas, to increase synergies with other programmes addressing technical skills in rural areas, and to introduce the Decent Job Agenda as a special focus for training.

Component-Result 5 – Coordination of all AIP stakeholders and governance of agroindustrial performance is made effective.

<u>Internal coherence of the Action</u>
PROSEAD's multifaceted course of action and multi-stakeholder approach demand internal harmonisation to ensure the programme is cohesive in terms of its governance, timeframe, geographical scope and the results-based approach.

PROSEAD's actions and implementing partners will be working together to achieve a single set of results expressed in

- a single logical framework,

- monitored and evaluated through a common M&E system,

- with a unified work planning and reporting system,

- a single financial system (comprising a budget, financial reports and audits) and

- an internal governance structure composed of multi-stakeholder technical committees and a single steering committee for PROSEAD composed of government and development partners.

This component will ensure that the action is managed at the highest standard of results-based management (RBM). The above tools and mechanisms will be collaboratively elaborated during the inception period.

A PROSEAD Visibility and Communications Plan will be produced within this component during the programme's inception period in accordance with EU communication guidelines, ensuring that each component and partner proactively undertakes actions in compliance with the plan. The EU Delegation will be actively involved in implementing this plan together with all implementing partners.

In sum, the implementing partner for Components 5 will be responsible for the harmonisation of PROSEAD's other four components' actions and approaches, including baseline surveying, work planning (annual and overall), budgeting, reporting, monitoring (including field missions), performance measurement, evaluation, auditing, communications and internal governance, all within an RBM approach. Component 5 and its implementing agency will therefore constitute the primary interface between PROSEAD and the EU Delegation, to whom it will report.

<u>External Coordination with AIP stakeholders' framework</u>

The implementation of PROSEAD will be coordinated as part of the already existing government-donor AIP coordination framework reporting to the inter-ministerial committee (ministries of Agriculture, Industry, Finance and the regions) on the government side and to the AIP donors' group as part of the EU+ Joint Agroindustrial Framework. The activities under this result will:

i. Facilitate and contribute to a PPP dialogue on governance issues affecting agroindustrial development in Ethiopia. In line with current context and challenges affecting the industrial sector it will contribute to:

    - Inform the ongoing government-donors dialogue on reform of the financial sector which is taking part in the governance of the USD 276 000 000 SMEs Finance Project for Ethiopia (loan finance and leasing to SMEs) funded by the World Bank, the United Kingdom and the European Investment Bank.
    - Inform the ongoing government-donors dialogue on climate change mitigation/sustainable agriculture practices which is taking part in the governance of the USD 583 000 000 multi-donor Agriculture Growth Programme co-funded by the EU.
    - Inform the on-going government-donors dialogue on water basins environment protection needed for the sustainability of the irrigation schemes in the AIP catchment areas which is taking part in the governance of the multi-donor Sustainable Land Management Programme funded also by EU.

- Inform the on-going government-donors dialogue on phytosanitary, consumer protection standards and trade issues which is taking part in the governance of the current World Bank Ethiopian National Quality Infrastructure Project and EU programmes on trade facilitation as well as in our Article 8 policy dialogue on trade issues.
- Inform policy dialogue to ensure decent work conditions – including respect of core labour standards – in the agroindustrial parks in order to promote fair income and working hours, occupational health and safety, spaces for employees to express their concerns, etc.; and to promote corporate social responsibility among the AIPs' investors.

ii. Commission reviews, studies and surveys as needed to support the above and for the expansion of agroindustrialisation in Ethiopia.

All the activities encompassed in the two subcomponents above will be supported by an EU grant to UNIDO, which is already under contract with Italy for IAIPI planning and by the EU for the Mojo Leather City project. The EU grant will be a parallel co-financing to the grant provided by Italy to UNIDO for the internal harmonisation subcomponent and a joint co-financing for the external coordination subcomponent.

In terms of government ownership, the governance function will be nested in the Ministry of Industry but liaising with counterparts in the Ministry of Agriculture, Education, and Finance and in the four IPDCs.

The additionality of the EU funding is to reinforce the coordination framework and position it at the highest government decision level, facilitating the resolution of governance issues when arising.

Specific note on value chain and AIP selection

Value chain: The EU grant will rely on the VC analysis already conducted in the 2015 AIP feasibility studies and periodic analysis updates of VC analysis conducted by ATA to alleviate supply bottlenecks/constraints. If needed, the EU Delegation will take advantage of the Value Chain Analysis for Development facility from DEVCO C1, for the analysis of the sustainability of a given value chain.

AIPs selection

Component 1: Exact resource allocation to a particular AIP will be decided by the Ministry of Finance and Economic Cooperation (MoFEC) and MoI in the final planning stage based on resources already allocated and work in progress.

Components 2 to 5: The four regions where the AIP are constructed/under construction.

4.3 Intervention logic

The theory of change of PROSEAD is based on the assumption that supporting Ethiopia's transition from an agricultural economy to an industrial one through the development of integrated agroindustrial parks will lead to the expansion of broad-based economic opportunities and decent employment for rural Ethiopians. To achieve this, the programme will support the following key changes:

- The AIPs will be equipped with infrastructure that respects environmental and social standards, which will contribute to decent employment conditions, and help AIPs gain acceptance from surrounding communities.

- By providing them with commercially sustainable access to finance, economic actors along the value chain will be better able to respond to increases in demand from agro-processors for raw materials.
- Farmers' access to markets will be improved through price information, aggregation services and storage facilities to reduce post-harvest losses and increase the supply of raw materials to agroindustrial parks.
- Rural job-seekers, and in particular rural women and youth, will benefit from skills development programmes that will allow them to access employment in the AIPs and to negotiate better working conditions.
- Agroindustrial governance mechanisms will help coordinate government and development partners' interventions to bridge financing gaps, create synergies, avoid wasteful overlaps and lead to better policies through multi-stakeholder dialogue.

The above changes will allow agro-processors and value chain actors to generate a virtuous cycle of increased agriculture productivity, increased market orientation and returns to smallholder farmers, increased decent employment opportunities (in particular for youth and women), balanced regional development and expansion of opportunities in the wider economy.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 84 months from the date of where financing agreement is concluded.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component

N/A.

5.4 Implementation modalities

Indirect management. The Commission will ensure that the appropriate EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation[10].

5.4.1 Indirect management with AfDB

A part of this action may be implemented in indirect management with AfDB. This implementation arrangement entails supporting the development of AIP infrastructure and intermediate transformation infrastructure needs that will be socially and environmentally compliant as well as to support AIP operations (Component 1). <u>This arrangement is justified</u>

[10] https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

given that, in the current context in which Ethiopia is heavily indebted, AfDB is the only International Financial Institution currently able to extend grant funding for the development of AIP public infrastructure without specific park targeting as well as to leverage additional new concessional loans from other bilateral cooperation agencies.

The entrusted entity would carry out the following budget implementation tasks: Procurement and management of contracts for the design and construction of socially valuable facilities in the AIPs (e.g. *crèches*, common places, showers, green spaces); contracts for the design and construction of environmentally valuable infrastructure (e.g. on-site renewable energy generation, zero-discharge wastewater treatment, etc.); and service contracts to supervise these.

5.4.2 Indirect management with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

A part of this action may be implemented through indirect management with GIZ. This implementation entails addressing critical skills gaps on various competency levels in the agroindustrial sector and in value chain development, including the use of apprenticeships and on-the-job training (Component 4). This implementation is justified because of GIZ's already established skills acquisition programmes in AIP catchment areas.

The entrusted entity would carry out the following budget-implementation tasks: procurement and management of service contracts for a study of training services on offer in AIP catchment areas and training needs assessment of unemployed youth and women; contracts for the supply of didactical material and equipment to upgrade existing training centres; grant or service contract to upgrade the quality of trainers' teaching skills; grant to train employers, workers and AIP managers on decent work standards and occupational health and safety.

5.4.3 Indirect management with the United Nations Industrial Development Organisation (UNIDO)

A part of this action may be implemented in indirect management with UNIDO. This implementation entails supporting the coordination framework among donors and government institutions to oversee the development of the AIPs and to steer improved governance for agroindustrial development (Component 5). It also entails internal coordination of all PROSEAD components, among other functions.

This implementation is justified by UNIDO's industrial development mandate, its current experience implementing a similar coordination framework with the programme Leather Initiative for Sustainable Employment (EUTF N° 05.541 (T005)) and its ability to leverage funding from other cooperation agencies, including Italy's, to address all aspects of the coordination framework.

The entrusted entity would carry out the following budget-implementation tasks: procurement and management of a supply/service contract to produce communication material; studies (e.g. additional environmental and social impact assessments, land use planning in AIP catchment areas, etc.); service contract or grants to provide technical assistance to the AIPs for best practice management of the parks in partnership with the tenant agro-investors, etc.

5.4.4 Indirect management with the partner country

A part of this action with the objective of *Farmers' access to market offered by agroindustrialisation*, related to Component 3, may be implemented in indirect management with Ethiopia according to the following modalities:

The partner country will act as the contracting authority for the procurement and grant procedures. The Commission will control *ex ante* all the procurement and grant procedures.

Payments are executed by the Commission.

The partner country shall apply the Commission's rules on procurement and grants. These rules will be laid down in the financing agreement concluded with the partner country.

5.4.5 Contribution to the African Investment Platform

This contribution may be implemented under indirect management with the entities, called Lead Financial Institutions identified by the Africa Investment Platform. The entrusted budget implementation tasks consist in the implementation of procurement, grants, financial instruments and payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it. The eligible Financial Institutions are listed in its appendix 3.

Certain entrusted entities are currently undergoing *ex ante* assessment. The Commission’s authorising officer responsible deems that, based on the compliance with the *ex ante* assessment based on Regulation (EU, Euratom) No 1605/2002, they can be entrusted with budget implementation tasks under indirect management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission’s authorising officer responsible may extend the geographic eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative Budget (EUR)

	EU Contribution (in EUR)	Indicative third party contribution (in EUR)*,**,***	Total (in EUR)
Component 1- Indirect management with AfDB	10 100 000	12 820 000	22 920 000
Component 2 - Contribution to Africa Investment Platform			
2.1 Access to finance for farmers' cooperatives & unions	8 300 000	34 188 000	42 488 000
2.2 Access to finance for SMEs	8 400 000	20 000 000	28 400 000
Component 3- Indirect management with Ethiopia	10 000 000	45 299 000	55 299 000
Component 4- Indirect management with GIZ	4 400 000	12 000 000	16 400 000
Component 5- Indirect management with UNIDO	3 300 000	2 000 000	5 300 000
Evaluation & Audit	360 000		360 000
Communication and Visibility	140 000		140 000
TOTAL in EUR	**45 000 000**	**126 307 000**	**171 307 000**

***** Third party contribution in US Dollar was converted at the exchange rate of EUR 1 = USD 1.17 (InforEuro rate for 08/2018) for component 1. (USD 15 000 000), component 2.1 (USD 40 000 000) and component 3. (USD 53 000 000) and then rounded off to the nearest thousand.

****** Italian EUR 22 000 000 and EUR 30 000 000 concessional loans to AIP development are parallel funding reflected in the Donor matrix – Appendix 1.

******* USD 50 000 000 parallel contribution of Korea to the AfDB grant.

5.7 Organisational set-up and responsibilities

Aside from PROSEAD's internal Steering Committee (refer to Component 5), the overall governance of PROSEAD will lay within the existing government-donors AIP coordination framework reporting to the Inter-ministerial Committee (Ministries of Agriculture, Industry, Finance and the Regions, with possible participation of other federal ministries such as those responsible for utilities) on the government side and to the AIP donors group as part of the EU+ Joint Agroindustrial Framework. The AIP Inter-ministerial Committee may, upon needs identified prior the starts of implementation, prioritise specific activities in each of component.

The day-to-day implementation of the technical aspects and financial monitoring of this action will be a continuous process and will be part of the implementing partner's responsibilities under each component under the leadership of UNIDO and the support of the EU Delegation.

The following government institutions will be partners in the implementation:

Component 1: The four IPDCs

Component 2.1:	The Ethiopian Development Bank
Component 2.2:	ATA and Regional Bureau of Agriculture
Component 3:	ATA and Regional Bureau of Agriculture
Component 4:	MoE and MoL
Component 5:	MoI assuming the lead role

The European Union Delegation will play a pivotal role in PROSEAD which will extend beyond financial and results-based oversight of the programme; the EU Delegation will be actively involved in coordination with other EU+Joint Agricultural Framework (JAF) partners and it will engage in policy dialogue initiatives (including those already initiated by other projects and through the EU-Ethiopia Strategic Engagement) with the government and private sector investors to ensure decent work principles, favorable business environment conditions and the application of environmentally friendly practices. The EU Delegation will also seek opportunities to engage in policy dialogue on reform of the financial market for inclusive finance in conjunction with the IMF and World Bank offices in Addis Ababa.

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities within the single framework established by Component 5, which will report to the EU Delegation and government counterparts. To this aim and following the lead of the Component 5 implementing partner, implementers shall establish a permanent internal, technical and financial monitoring system for the action and contribute to the single progress reports (at least semi-annual) and final report collated by Component 5. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators in relation to the baseline established by PROSEAD, and in alignment with the logical framework. The reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final reports, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and possibly through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a mid-term and/or final evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to coordination of stakeholders and governance of agroindustrial parks.

The final evaluation would be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it is an innovative action pooling together resources from public and private stakeholders for a common purpose.

The Commission shall inform the implementing partners at least one month in advance of the dates foreseen for the evaluation missions. Under the coordination of Component 5, the implementing partners shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities].

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, 1-2 contracts for evaluation services shall be concluded in year 3 and/or 7.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Component 5 will coordinate all other components to facilitate auditors' work.

Indicatively, 1-2 contracts for audit services shall be concluded in year 3 and/or 6.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific PROSEAD Communication and Visibility Plan, to be elaborated through Component 5 during the inception phase with inputs from all implementing partners and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Guidelines for European Union External Action shall be used to establish the Communication and Visibility Plan and the appropriate contractual obligations.

For the action implemented under Communication and Visibility measures will be implemented by the Lead Financial Institutions responsible for implementing aspects of PROSEAD. These measures will be described in the project proposal submitted by the Lead Financier to the Africa Investment Platform. Care will be taken that substantial visibility will be given to all activities described in this Action Document.

APPENDIX 1: DONOR MATRIX IN SUPPORT OF THE AIP

			AIP SUPPORT FRAMEWORK					
	Donors	**Funding**	**AIP infrastructure**	**Finance access farmers**	**Finance access SMEs**	**Supply chain**	**Employability**	**Overall Governance**
1	**Italy** - *only for Oromia and SNNPR*	€22m loan	Infrastructure IPDCs					
		€30m loan	€15m grant for storage, equipment, rural connectivity, ICT	Insurance – Financial institutions: €0.85m		Inputs €1.25m + Gender specific: €1.5m + Nutrition specific: €1.5m + NRM €2m + FAO TA €4m	Training FTCs, TVET, support to model famers: €7.25m	UNIDO €2m grant
2	**Finland**	€10m		AgroBig in 8 woredas in Amhara	.			
3	**Germany**					Green Innovation Centre (GIC)	As part of support to mechanisation of GIC	
4	**AGP 2**	US $800m				Training - Inputs and technologies to farmers and cooperative - 165 woredas		
5	**ACC**	US $300m				ACC in 24 commodity-geographical areas across the 4 major producing regions		
6	**World Bank associated with European Investment Bank (EIB)**	US $276m			SMEs Finance Project for Ethiopia (loan finance and leasing to SMEs – No specific rural finance.)			
7	**IFAD**	US $248m		RUFIP 2 - ending 2019				
8	**KOREA**	US$ 50m						

APPENDIX 2 - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	Inclusive economic opportunities expanded through Ethiopia's transition from an agricultural economy to a more industrial one.	O.1 - Agroindustrial growth as a percent of GDP* O2 - Increase of agricultural production in the targeted value chains by the agroindustries (t/yr)	O1-Agriculture & allied industries GDP 6.5% in 2015 O2 - To be geographically analysed from the national 2017 production - Wheat 4.54 million t/y – maize 7.85 million t/y	O1-Agriculture & allied industries GDP 8% by 2023 & agro-processing GDP6.7% by 2025 O2 - In principle + 3% per annum	O1 and O2-The Government of Ethiopia regional and federal annual progress reports -MOFEC data -GTP II annual progress reports and consultative meeting reviews O2 - AGP 2 and MoA reporting	
Specific objectives/outco[mes]	Decent employment and incomes increased for rural Ethiopians, particularly youth and women, in four environmentally sustainable agroindustrial parks and their agricultural production zones.	SO1 - Government, donor and private sector investments related to 4 AIPs, agro-processing and value chain development*	SO1 - US$266 million (2017) SO2 -Overall	SO1- IFI and government leveraged funds a minimum of 400% by 2023	SO1 & SO2 National Bank of Ethiopia annual reports Development partner and IFI	The Government of Ethiopia maintains its strong commitment for Rural transformation

		SO2 -Agriculture & allied industries employment in the regions (disaggregated by sex and at risk groups)**	unemployment rate 4.1% (urban 16.1%) in 2015 (disaggregated by sex and at risk groups)	SO2- target for 2020 - 3.5% for females in the labour pool 3.2%)	annual reports Regional IPDC Progress reports	and agro-processing development Government pursues a transparent competitiveness and market protection policy
Output 1	Agroindustrial parks infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met.	1.1 -The relative value of government investment in social and environmental infrastructure** 1.2.Status of the report on assessment of compliance of infrastructures 1.3 Number of IPDC technical management team members trained by this Action on X (disaggregated by sex)	-1.1 Updated related value by the AfDB mission (2018) NB estimated at US $200m in 2015 for the 4 pilot AIP 1.2 - 1.3: None	1.1-PROSEAD public sector fund facility of €10 million for government to lever at least 400% (2023) 1.2. Report is approved after compliance inspection 1.3 TBD	1.1 -BOE annual reports -Government of Ethiopia SDG9 fund data -MOFEC data - Regional IPDC Progress reports 1.2 – 1. 3 Regional IPDC Progress reports and reports from Institutions in charge of Environment Impact Assessment	The government and development partners make contributions timely to accomplish all AIPs / RNDPC Local capacities are sufficient to handle the investments and provide for maintenance and development.

Output 2	The capacity and financial resources of MFIs and LFIs to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the AIPs are increased.	2.1 - Increase N° of farmers households receiving finance products and services in the park catchment areas supported by the Project 2.2 - Increase % of Females in the indicator above receiving products and services supported by the Project 2.3 - Performance of MFIs and LFIs loan portfolio for economic operators operating in the value chain in the parks -	2.1- At the RUFIP III formulation stage based on the Phase II assessed performance in the project area (2017: 714,000 clients) 2.2- As above (2017: 285,000 female clients or 40%) 2.3 - At the AFD support formulation stage based on loan portfolio assessment	2.1 - To be assed at the RUFIP III formulation stage 2.2 - As above with ambition to reach 50 % 2.3 - tbd	2.1 to 2.3 - IFI reporting on lending portfolio against targets and PROSEAD monitoring and evaluation procedures	- Demand remains strong for PAP and processors remain competitive -EU blending addresses risk aversion of agribusiness lending - MFIs and LFIs are capable of learning and handling the high-risk agricultural and rural credits - Risk sharing is maintained with the government and specific donor-led funds.
Output 3	The capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agro-processing markets are improved.	3.1 -Number of Clusters supported entering into the Agroindustrial value chains & levels of women/youth inclusiveness**	3.1 -Number of clusters supported =0 (2018) -Cluster inclusiveness for women & decision making	3.1 -number of clusters supported -20 per region (2023) -Cluster inclusiveness	For all - ACC-PROSEAD Value chain analysis (component 5) -ATA progress reports -Bureau of	Strong demand is maintained for the selected VC commodities Associated government -

		3.2 Average increase earning to farmer on value chains subject to a crop delivery contract including gender disaggregation 3.3 Number of youth and women with secure tenure of land thanks to support from this action	responsibilities <10% (2015) -number of contracts with regional research institutions =0 (2017) 3.2 – 3.3 TBD	>30% (2023) 3.2 - 3.3 TBD -at least 40 T&Ds per cluster per region with >35% females and youth participation (2023)	Agriculture and AGP reports -Women's and Children's affairs data -Regional Agricultural Research reports -GTP II annual progress reports and consultative meeting reviews	donors support programme addressing productivity and Value chain development are effectively delivering
Output 4	The skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are improved.	4.1 -number of individuals completed the improved and modernised agro-processing, agribusiness 1-3 year courses disaggregated by sex and at risk groups** 4.2 -number of individuals completed the improved and modernised agro-processing, agribusiness and work practices 1-3 months courses (disaggregated by sex and at risk groups)**	4.1 - number of individuals completed the 1-3 year courses and female numbers (1,500 or which 35-55% female per TI) (2017) 4.2 -number of individuals completed the 1-3 month courses and female numbers inclusion(4,000 of which 55% female per TI) (2017) 4.3 -number of AIP incubator units established and MSMEs start-	4.1 ,- numbers completed 1-3 year courses 4,000 or which 45-55% female per TI)(2023) 4.2 -number completed the 1-3 month courses - 8,000 of which 55% female per TI) (2023) 4.3 -number of AIP incubator units established -1 per region and MSMEs start-	For all -IPDC reports -Regional Technical, Vocational and Enterprise Bureau data -GTP II annual progress reports and consultative meeting reviews	State-run TVET institutions agree to cooperate with the private sector participants Labour market information systems are present and can be accessed by the TVET institutions

		4.3 -number of AIP incubator units established and MSMEs start-ups (disaggregated by sex and at risk groups)**	ups – none established through incubators in 2017	ups 2,000 by 2023		
Output 5	Coordination of all AIP stakeholders and governance of agroindustrial performance are made effective.	5.1 Rate of progress to achieve agroindustrial governance, coordination and participation* Status of the related legal framework* 5.2 Progress in supporting the improvement in related legal framework and status achieved*	5.2 - levels of governance for specific commodity value chains limited in 2017 5.2 - numbers of legal framework studies & reviews in 2017 and status achieved	5.1 - Consultative & public private participation forums =12 (2023) 5.3 -Studies & reviews = 6 (2023) and status achieved	5.1 and 5.2 PROSEAD and MOI, MOFEC, MANR progress reports	PROSEAD and associated donors programme have sufficient resources and influence to be the catalyst for agroindustrial sector good governance Government has a sufficient capacity to maintain the inter institutional the coordination process

APPENDIX 3 – ELIGIBLE FINANCIAL INSTITUTIONS

Contribution to Africa Investment Platform for the Promotion of Sustainable Ethiopian Agroindustrial Development (PROSEAD)

Acronym of Legal Entity	**Legal Entity (sub-entities covered (if any) via hyperlink)**
ADB	Asian Development Bank
AfDB	African Development Bank
AU-IBAR	African Union
CABEI	Central American Bank for Economic Integration
CIFOR	Centre for International Forestry Research
EBRD	European Bank for reconstruction and development
EIB	European Investment Bank
EIF	European Investment Fund
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
NEFCO	Nordic Environment Finance Corporation

OIE	World Organisation for Animal Health
SPC	The Pacific Community
SPREP	South Pacific Regional Environment Programme
WBG	World Bank Group (IBRD, IDA, IFC, MIGA, ICSID)
WFP	World Food Programme

Acronym	**National Agency, Country**
AECID	Agencia española de cooperación internacional al desarrollo, Spain
AFD	Agence française de dévelopement, France
CDP	Cassa depositi e prestiti S.p.A., Italy
COFIDES	Compañía española de financiación del desarrollo, Spain
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH, Germany

FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, Netherlands
KfW	Kreditanstalt fur Wiederaufbau, Germany
PROPARCO	Groupe Agence Française de Développement, France
RVO	Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency), Netherlands
SIMEST	Societa Italiana per le Imprese al'Estero, Italy
USAID	United States Agency for International Development, USA