

BOARD APPROVAL
Lapse-of-time Procedure

2 December 2019

FOR INFORMATION

MEMORANDUM

TO: THE BOARDS OF DIRECTORS

FROM: Vincent O. NMEHIELLE
Secretary General

SUBJECT: ERITREA: ENABLE YOUTH ERITREA*

TSE GRANT OF UA 12 MILLION

The **Grant Proposal** and the Draft **Resolution** related to the above-mentioned subject were submitted for **your consideration on a Lapse-of time basis**, on 18 November 2019.

Since no objection was recorded by 5.00 pm. on 2 December 2019, **the Proposal is considered as approved and the Resolution adopted.**

Attach:

Cc.: The President

***Questions on this document should be referred to:**

Mrs. N. NWABUFO,	Ag. General Director	RDGE	Extension 8343
Mr. M. FREGENE	Director	AHAI	Extension 5586
Mr. G. PENN	General Counsel	PGCL	Extension 3220
Mr. J. COOMPSON	Division Manager	RDGE.2	Extension 8415
Mr. E. MABAYA	Division Manager	AHAI.1	Extension 4107
Mrs. A. MECCA	Division Manager	PGCL.1	Extension 3309
Mr. M. EGEH	Task Manager	RDGE.2	Extension 8260

AFRICAN DEVELOPMENT BANK GROUP



PROJECT: ENABLE YOUTH ERITREA

COUNTRY: STATE OF ERITREA

PROJECT APPRAISAL REPORT

Date: September 2019

Appraisal Team	Team Leader	M. EGEH	Principal Agriculture Officer	RDGE2	8260
	Team Members	G. KYOKUNDA	Chief Investment Officer	RGDE3	8352
		S. RAMADHANI	Senior Agricultural Economist	COTZ	6761
		F. ASAYE	Senior Procurement Officer	RDGE4	8118
		S. SAKWA	Senior FM Officer	SNFL4	8289
		D. ELHASSAN	Senior Gender Officer	RDGE2	8239
		A. ORODA	Consultant, Env. Specialist	RDGE4	
		N. NASSUNA	Principal Legal Counsel	PGCL	5231
	Regional Sector Manager	Mr. Joseph COOMPSON		RDGE2	8415
	Sector Manager	Mr. Edward MABAYA		AHAI1	4107
	Deputy Director General	Ms. Nnenna NWABUFO		RDGE	8343
	Sector Director	Mr. Martin FREGENE		AHAI	5586
	Ag. Director General	Ms. Nnenna NWABUFO		RDGE	8343
Peer Reviewers	E. MPYISI	Chief Financial Economist		AHAI1	8379
	J. NDAO	Chief Enterprise & SME Development Officer		AHHD0	8381
	O. D. AFUN-OGIDAN	Principal Agribusiness Officer		RDGS2	3614
	J. BERNDT	Senior Fragility and Resilience Officer		RDTS	4355

AFRICAN DEVELOPMENT BANK GROUP



ERITREA

ENABLE YOUTH ERITREA

RDGE/AHAI

November 2019

TABLE OF CONTENTS

Currency Equivalents.....	i
Fiscal Year	i
Weights and Measures.....	i
Acronyms and Abbreviations.....	i
Project Information Sheet.....	ii
Project Summary.....	iii
Results-based Logical Framework.....	iv
Project Implementation Schedule.....	vi
<u>I – STRATEGIC THRUST & RATIONALE</u>	1
<u>1.2. Rationale for Bank’s Involvement</u>	1
<u>1.3. Donor Coordination</u>	2
<u>II – PROJECT DESCRIPTION</u>	2
<u>2.1. Project Objectives and Components</u>	2
<u>2.2. Technical Solutions Retained and Other Alternatives Explored</u>	5
<u>2.3. Project Type</u>	5
<u>2.4. Project Cost and Financing Arrangements</u>	5
<u>2.5. Project Target Area and Population</u>	7
<u>2.6. Participatory Process for Project Identification, Design and Implementation</u>	8
2.7. Bank Group Experience and Lessons Reflected in Project Design.....	8
<u>2.8. Project Performance Indicators</u>	9
<u>III – PROJECT FEASIBILITY</u>	9
<u>3.1. Economic and Financial Performance</u>	9
<u>3.2. Environmental, Social and Climate Change Impacts</u>	10
<u>IV – IMPLEMENTATION</u>	11
<u>4.1. Implementation Arrangements</u>	11
<u>4.2. Monitoring</u>	12
<u>4.3. Governance</u>	14
<u>4.4. Sustainability</u>	14
<u>4.5. Risk Management</u>	15
<u>4.6. Knowledge Building</u>	15
<u>V – LEGAL INSTRUMENTS AND AUTHORITY</u>	15
<u>VI – RECOMMENDATION</u>	16
<u>Appendix 1: Eritrea - Comparative Socio-economic Indicators</u>	17
<u>Appendix 2: AfDB’s Active Portfolio in Eritrea</u>	18
<u>Appendix 3: Map of Project Area</u>	19
<u>Appendix 4: Project Fragility and Resilience Analysis</u>	20
Appendix 5. Eritrea's Current Debt Sustainability Analysis	24

Currency Equivalents

(August 2019)

1 UA	=	1.38 USD
1 UA	=	20.88 ERN
1 USD	=	15.375 ERN

Fiscal Year

January 1 – December 31

Weights and Measures

1 metric tonne (t)	=	2,204 pounds (lbs)
1 metre (m)	=	3.28 feet (ft)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS)

ADF	African Development Fund	JICA	Japan International Cooperation Agency
Agripreneur	Agricultural Entrepreneur	MDB	Multilateral Development Banks
CAADP	Comprehensive Africa Agriculture Development Program	MOA	Ministry of Agriculture
CT	Country Team	NAKFA	Currency of Eritrea
DPs	Development Partners	NIDP	National Indicative Development Plan
DRSLP	Drought Resilience and Sustainable Livelihoods Program	NGO	Non-Governmental Organization
EA	Executing Agency	NUEYS	National Union of Eritrean Youth and
ENABLE	Empowering Novel Agri-Business-Led Employment	PFI	Participating Financial Institutions
EDIB	Eritrean Investment and Development Bank	PIU	Project Implementation Unit
EU	European Union	PPP	Public-Private Partnership
EWAA	Eritrean Women Agribusiness Association	RSF	Risk Sharing Facility
ESIA	Environmental and Social Impacts Assessments	RSFM	Risk Sharing and Financing Mechanism
FAO	Food and Agricultural Organization	SDEEP	Skills Development for Employability and Entrepreneurship Project
GDP	Gross Domestic Product	SMEs	Small and Medium scale Enterprises
GHG	Greenhouse Gas	TSF	Transition Support Facility
GoSE	Government of the State of Eritrea	TAF	Technical Assistance Facility
GPN	General Procurement Notice	UNDP	United Nations Development Program
I-CSP	Interim Country Strategy Paper	UNICEF	United Nations International Children's Emergency Fund
IFAD	International Fund for Agric. Develop.	UA	Unit of Account
IFF	Interest Free Facility	YABIC	Youth Agri-Business Incubation Center
IITA	International Institute of Tropical Agriculture	SDGs	Sustainable Development Goals
INDC	Intended Nationally Determined Contribution		
IsDB	Islamic Development Bank		

Grant Information

Client's information

RECIPIENT: STATE OF ERITREA

EXECUTING AGENCY: THE MINISTRY OF AGRICULTURE

Financing plan

Source	Amount (millions)		%age	Instrument
	USD	UA		
TSF Pillar I (TSF Pillar I USD 16.56 (UA 12 Million) & Italy contribution USD 1.55 (UA 1.12 Million)	18.11	13.12	91.2	Grant
GoSE	1.74	1.26	8.8	NA
Total Cost	19.85	14.38	100.00	

Important Financial Information

Grant Currency	UA
Commitment Charge/Fee	NA
Service Charge	NA
Tenor	NA
Grace Period	NA
FIRR, NPV (base case)	
EIRR, NPV (base case)	

Timeframe - Main Milestones (expected)

Concept Note Approval	February, 2019
Project Approval	November, 2019
Entry into Force	December, 2019
Completion	December, 2024
Closing Date	June, 2025

PROJECT SUMMARY

1. Project Overview: ENABLE Youth Eritrea is one of AfDB's ENABLE Youth Initiatives under the Bank's Feed Africa Strategy for Agricultural Transformation in Africa. The objective of the project is to create business opportunities and decent employment for young women and men along priority agricultural value chains in Eritrea through the provision of entrepreneurship skills, funding and business linkages. The project is expected to train and empower 1,000 (50 % female) Agricultural Entrepreneurs (Agripreneurs), out of which 800 agribusinesses are expected to be generated. Each of the agribusinesses is expected to employ on average five other support workers, generating about 5, 000 direct jobs (including at least 2,500 for young women) in the first five years of the project. For those agripreneurs that are not successful in establishing businesses, they will be better positioned to enter the professional agriculture jobs market and find employment. The project cost is estimated at UA 14.38 million, of which AfDB is financing UA 13.12 million (91.2 %) and the Government of Eritrea will contribute UA 1.26 million or 8.8% of total project cost. The project is expected to start in 2020 with a duration of five years.

2. The proposed ENABLE Youth Eritrea will contribute to the objectives of the country's Integrated Five-year Agricultural Strategic Plan (2019-2023) by identifying innovative and enterprising youth agripreneurs who are willing to pursue business opportunities in agribusiness along key agricultural value chains in the country. The project will engage all stakeholders along the agricultural value chain, thus strengthening the entrepreneurship ecosystem and growth of agribusiness ventures. Moreover, the project promotes Public-Private Partnership (PPP) through active collaboration with private enterprises including their participation in the training and apprenticeship of beneficiary students.

3. Needs Assessment: Youth unemployment/underemployment is a major socio-economic problem facing African nations. At present, 60 percent of Africa's unemployed are young adults.. The agriculture sector is the mainstay of livelihoods for more than 75 per cent of the population in Eritrea and offers huge potential in providing solutions to the current problems of youth employment; however, there are many challenges young people face including access to credit, requisite skills, markets, as well as other logistics and services for agribusiness development. The Bank's ENABLE Youth initiative is a comprehensive program that builds entrepreneurship in agribusiness via skill acquisition and creates an enabling environment in which young men and women become owners of profitable agribusinesses. The Government of Eritrea was among the countries in the continent that expressed keen interest in participating in the Bank's ENABLE Youth Program and requested the Bank's support for financing.

4. Bank's Added Value: ENABLE Youth is a flagship program under the Bank's Feed Africa Strategy for Agricultural Transformation (2016 – 2025) and Jobs for Youth in Africa Strategy (2016-2025). The project is also in line with the Bank's Ten Year Strategy (2013-22), particularly in its operational focus areas (private sector development), areas of special emphasis (agriculture and food security) and the promotion of inclusive growth by offering support to young women and men, and the concept of green growth by promoting low carbon climate resilient agricultural practices. The project also aligns with Bank's High 5s especially Feed Africa and Improve the Quality of Life for the People of Africa; and the Bank's Strategy for "Addressing Fragility and Building Resilience in Africa (2014-2019). The project is also part of the Bank's "Say No to Famine Framework" to build sustainable and resilient food systems in the Horn of Africa.

5. Knowledge Management: ENABLE Youth Eritrea is one of Bank's ENABLE Youth projects to introduce an early stage financing facility under its financing component. The project is expected to generate considerable knowledge that will add value to the overall design and management of other ENABLE Youth operations in the continent. Progress reports, audit reports, mid-term review reports, and completion reports as well as other information routinely collected, as part of monitoring and evaluation framework will be used to document the lessons learnt. The Bank will share this knowledge with other development partners and stakeholders engaged in youth empowerment in agribusiness.

RESULTS-BASED LOGICAL FRAMEWORK(RBLF)

Country and Project Name: Eritrea: ENABLE Youth

Purpose of the Project: Create business opportunities and decent employment for young women and men along priority agricultural value chains.

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS /MITIGATION MEASURES	
		Indicator (Including CSI)	Baseline	Target			
IMPACT	Improved youth livelihoods and food security	1. Agriculture GDP Share 2. Poverty level in project area (%)	1. 17 % 2. Baseline survey in 2020	1. 20% by 2025 2. 10% reduction by 2025	National Statistics and project reports		
	1. Increased agribusinesses enterprises 2. Increased equitable youth employment.	1. No. of youth agribusinesses established (50% female) 2. No. of skilled and unskilled jobs created (50 % Female)	<u>2019</u> 1. (0) 2. (0)	<u>2024</u> 1. (800) 2. (5000)	Project reports National Statistics Office M&E reports	<u>Risk</u> : Youth may not be attracted to Agriculture <u>Mitigation</u> : Change of mind-sets through outreach strategy targeting youth to promote Agriculture as a business	
COMPONENT 1: ENABLING ENVIRONEMENT FOR YOUTH EMPOWERMENT IN AGRIBUSINESS							
OUTPUTS	Output 1.1. Agriculture promoted as viable business	1.1.1 Youth outreach strategy developed & implemented 1.1.2. No. of youth sensitized on agribusiness by 2024 (of which 50% female)	- -	1.1.1. by 2020 1.1.2. (50,000)	Project Progress Reports Midterm reports	<u>Risk 2</u> : Weak business environment negatively affecting project implementation and impact. <u>Mitigation 2</u> : Agriculture transformation for economic growth remains a government priority.	
	Output 1.2. Improved access to markets, land and financial services for youth agribusinesses.	1.2.1 Gender sensitive report on youth land accessibility completed.	-	1.2.1 by July 2020			
		1.2.2 Design of the risk sharing & interest free facilities completed	-	1.2.2. by July 2020			
		1.2.3. Comprehensive agribusiness value chain assessment for selected key value chains completed.	-	1.2.3 by July 2020			
		Output 1.3. YABICs upgraded and equipped	1.3.1. Needs assessment of 5 YABICs completed	-	1.3.1 by Mar 2020		
		1.3.2 Agreements with YABICs hosting partners finalized and signed	-	1.3.2. by Jan. 2020			
		1.3.3 YABICs fully operational for agribusiness incubation activities	-	1.3.3. By Dec. 2020			
	COMPONENT 2. ENTREPRENEURSHIP AND EMPLOYMENT THROUGH AGRIBUSINESS INCUBATION						

	Output 2.1. Agribusiness incubation activities conducted	2.1.1. Youth selection criteria developed. 2.1.2. No. of candidates selected & trained (50% females) under incubation program 2.1.3 Market linkage/Offtaker arrangements established	- 2.1.2. (0) -	2.1.1 by Nov 2019 2.1.2. (1000) 2.1.3 for every graduating group	Project Progress Reports Midterm reports Pilot sites results M&E Reports	Risk: Weak capacity of the PIU Mitigation: The technical assistance and backstopping will be provided to the PIU by the incubation service provider in supervising and monitoring youth the incubation activities. The Bank will also conduct yearly fiduciary clinics to ensure strengthened capacity.
	COMPONENT 3. FINANCING YOUTH AGRIBUSINESSES					
	Output 3.1. Risk sharing and interest free loan financing facilities operational	3.1.1. No. of youth agribusinesses funded (50 % female) under interest free loan facility (IFF) 3.1.2 Volume of loans (USD) provided under IFF facility 3.1.3. Volume of additional finance (USD) leveraged through the Risk Sharing Facility	2019 3.1.1. (0) 3.1.2 (0) 3.1.3 (0)	2024 3.1.1. (800) 3.1.2. 4 million 3.1.3 25 million	Project Progress Reports Midterm reports M&E Reports	Risk: Potential failure of youth businesses start-ups. Mitigation: i) Training and mentoring in building youth business skills while in YABICs; ii) Efficient post incubation follow-up and counselling
	COMPONENT 3. PROJECT COORDINATION AND MANAGEMENT					
	Output 4. Work plan, activities monitored and regularly evaluated as due	4.1. Project implemented and delivered on time & within budget 4.2 Monitoring framework is established and functional for the project	- -	4.1. completion by Dec. 2024 4.2. by Dec. 2020	Annual Reports Midterm reports M&E Reports Technical reports	Risk: Weak capacity of the PIU Mitigation: Capacity building training will be provided to the PIU and partners in managing the incubation activities. The Bank will also conduct yearly fiduciary clinics to ensure strengthened capacity.
	COMPONENTS				Inputs	
	Component 1: Enabling Environment for Youth Empowerment in Agribusiness: <i>Sub-Component 1:</i> Awareness creation and promotion of agriculture as a business; <i>Sub-Component 2:</i> Access to market, land and financial services for youth agribusiness ventures; <i>Sub-Component 3: Upgrading and Equipping of YABICs.</i> Component 2: Entrepreneurship and agribusiness incubation: <i>Sub-Component 1:</i> Agribusiness Activities; <i>Sub-Component 2:</i> Business plans and loan applications Component 3: Financing Youth Agribusinesses: Operationalizing risk sharing & financing mechanism (RSFM) Component 4: Project Management and Coordination				Project Cost in USD millions: 19.85 Sources: TSF Pillar I Grant: 18.11 (including Government of Italy contribution of 1.55); GoSE: 1.74; PFI: USD 25 million to be leveraged through RSFM Component 1: 2.79 Component 2: 4.94 Component 3: 9.28 Component 4: 1.90	

PROJECT TIME FRAME/IMPLEMENTATION SCHEDULE¹

Year	2019		2020				2021				2022				2023				2024				2025	
Quarter	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
INITIAL ACTIVITIES																								
Advance Contracting																								
Grant negotiations and approval																								
Signature of Grant Agreement																								
Publication of the GPN																								
Project launching																								
ENABLING ENVIRONMENT FOR YOUTH EMPOWERMENT IN AGRIBUSINESS																								
Signing contract with the incubation service provider																								
Conducting comprehensive value chain assessment/market assessment																								
Establishment of a Risk-Sharing and Financing Mechanism																								
Development and implementation of Youth outreach strategy																								
Land accessibility assessment																								
YABICs needs assessment, upgrading and equipping																								
ENTREPRENEURSHIP AND EMPLOYMENT THROUGH AGRIBUSINESS INCUBATION																								
Criteria for youth selection developed & selection committee established																								
Agripreneurs selection and uptake																								
Conduct incubations and accelerations in YABICs																								
Bankable agribusiness proposals & loan applications developed by Agripreneurs																								
Mentorship, coaching and monitoring																								
FINANCING YOUTH AGRIBUSINESSES																								
Interest Free Loan and Risk Sharing Facilities operational																								
TA Program to build and strengthen capacity of EDIB and PFIs																								
Financing Agripreneurs business start ups																								
Mentorship, coaching and monitoring.																								
PROJECT MANGEMENT AND COORDINATION																								
Baseline Survey																								
Quarterly Progress Reports																								
Annual workplans and budgets																								
Annual financial audits																								
Mid-term review																								
Completion Report																								

¹ This is a general project implementation schedule. Detailed annual work schedule will be developed before the beginning of each Project Year.

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE AFDB GROUP TO THE BOARD OF DIRECTORS ON PROPOSED GRANT FOR THE ENABLE YOUTH ERITREA PROJECT

Management submits the following Report and Recommendation on a proposed TSF Pillar I grant of UA 13.12 million to finance the ENABLE Youth Eritrea.

I – STRATEGIC THRUST & RATIONALE

1.1. Project Linkages with Country Strategy and Objectives

1.1.1 The ENABLE Youth Eritrea is well aligned to the Government of State of Eritrea's (GoSE) National Indicative Development Plan (NIDP) under finalization whose main objectives include accelerating economic growth, improving agricultural productivity and food security, reducing rural poverty, and commercializing farming to increase exports. The project is also in line with Eritrea's new Integrated Five-year Agricultural Strategic Plan (2019-2023), which aims at increasing agricultural production and productivity, and boosting agricultural industrialization for export promotion. The project will contribute toward these objectives by identifying innovative and enterprising youth agribusinesses who are willing to pursue business opportunities in agribusiness along key agricultural value chains in Eritrea. The project will engage all stakeholders along the agricultural value chain, thus strengthening the entrepreneurship ecosystem and growth of agribusiness ventures. Moreover, the project promotes Public-Private Partnership (PPP) through active collaboration with private enterprises including their participation in the training and apprenticeship of beneficiary students.

1.1.2 The project is also in line with the Eritrean National Agricultural Development Policy and Strategy (2020 - 2025) under finalization, which aims at developing the country's natural resources and optimizing their use, realizing balanced agricultural and rural growth, while increasing food security and job opportunities. The proposed ENABLE Youth project is included in the indicative program of the current Interim Country Strategy Paper (I-CSP, 2017-2019) and its extension (2020-2021) currently being finalized. The project directly contributes to the objectives of the single pillar of the I-CSP: "Agriculture Transformation for Inclusive and Sustainable Growth". The project will contribute to Eritrea's Intended Nationally Determined Contribution (INDC) and National Adaptation Programs of Action whose priority adaptation actions include enhancing the resilience of the agriculture, livestock and fisheries value chains by promoting climate smart agriculture and livestock development; and it will contribute to Eritrea's achievements of the Sustainable Development Goals (SDGs) particularly goals 1, 2, 4 and 8.

1.2. Rationale for Bank's Involvement

1.2.1 Youth unemployment is a major socio-economic problem facing African nations. At present, 60 percent of Africa's unemployed are young adults.. Agriculture sector is the mainstay of livelihoods for more than 75 per cent of the population in Eritrea and offers huge potential in providing solutions to the current problems of youth unemployment. Agribusiness can be a profitable venture; however, there are many challenges young people face in the quest for earning a livelihood from agriculture and agribusiness. These include access to credit, requisite skills, markets, as well as other logistics and services for agribusiness development.

1.2.2 The Bank's ENABLE Youth initiative is a comprehensive program that builds entrepreneurship in agribusiness via skill acquisition and creates an enabling environment in which young men and women become owners of profitable agribusinesses. The program seeks to encourage the creation and growth of growth of sustainable commercially viable youth agribusinesses by supporting the development of well-structured agribusiness projects, and providing commercial loans and other financial products/services available for investment in a range of agribusiness ventures, market access, capacity development, risk management, and networking. ENABLE Youth Program is one of the flagship operations under the

Bank's Feed Africa Strategy for Agricultural Transformation (2016 – 2025) and Jobs for Youth in Africa Strategy (2016-2025). The Government of the State of Eritrea is among the RMCs that expressed strong interest in participating in the program and requested the Bank's support for financing.

1.2.3 The ENABLE Youth Eritrea is also consistent with the principles of key regional and national initiatives as well as Bank Group policies and strategies. These include the Comprehensive Africa Agriculture Development Program (CAADP); Bank's Ten Year Strategy (2013-22) particularly in its operational focus areas (private sector development) and areas of special emphasis (agriculture and food security) and green growth; the Bank's High 5s especially Feed Africa and Improve the Quality of Life for the People of Africa; the Bank's Strategy for "Addressing Fragility and Building Resilience in Africa (2014-2019); and Bank's 2nd Climate Change Action Plan (2016 – 2020). The project is also part of the Bank's Say No to Famine framework, which aims to build sustainable and resilient food systems in the Horn of Africa

1.3. Donors Coordination

1.3.1 There are a small number of development partners (DPs) operating in Eritrea to provide development and humanitarian support. These include the AfDB, UN, EU, Islamic Development Bank, JICA, China, IFAD, and FAO. Currently, there is no formal arrangement for coordinating development partners' activities. Donor coordination is organized on a bilateral basis, by which the Government ensures that partner interventions are aligned with national policies and priorities, and there is no duplication. The DPs active in the country use the informal "*Development Partners' Forum*" initiated by the UNDP to exchange information on their interventions in the country. There is an agricultural working group headed by FAO whose main objective is to strengthen coherence among sector development partners in Eritrea by consulting and sharing information on programs and projects in the country. Presently, the Bank has no country office in Eritrea, and collaborates with most of these partners through its Africa Regional Development and Business Delivery Office (RDGE) in Nairobi. The Bank is currently finalizing the process of establishing a liaison office in Eritrea. During the identification and preparation missions, consultations were held with relevant DPs in the country including UN, EU, FAO, and IFAD to ensure that the ENABLE Youth project is implemented in a harmonized and aligned manner with other partner interventions.

Table: 1.1 DP Support to Agriculture

	Sector or subsector	Size		
		GDP	Exports (USD)	Labor Force (%)
	Agriculture	17.9	2.06	80
	Players - Public Annual Expenditure (average 2015 to 2017)			
	Government	DPs		
UA m	126.27	78.60		
%	78.60	21.40		
	Level of Donor Coordination			
	Existence of Thematic Working Groups (this sector/sub-sector)			[Y]
	Existence of SWAs or Integrated Sector Approaches			[N]
	ADB's Involvement in Donors Coordination			[M]

Key: **L:** Leader. **M:** Member but not leader. **N:** No involvement. **Y:** Yes. **N:** No.

II – PROJECT DESCRIPTION

2.1. Project Objectives and Components

2.1.1 The overall goal of the Bank's ENABLE Youth Program is to contribute to job creation, food and nutrition security, income generation and improved low carbon climate resilient livelihoods for youths in both urban and rural areas. The specific objective of the ENABLE Youth Eritrea project is to create business opportunities and decent employment for young women and men along priority agricultural value chains through the provision of entrepreneurship skills, funding and business linkages.

The project components are described in Table 2.1 below, with details provided in Annex C1 (Technical Annexes).

Table 2.1: Description of Project Components

No	Component Name	Cost (USD million) and % allocation	Component Description
1	Enabling Environment for Youth Empowerment	2.89 (14.54%)	<p>The aim of this component is to create an enabling environment for building entrepreneurship in agribusiness for youth. Activities will be carried out under the following three sub-components:</p> <p><u>Sub-component 1: Awareness creation and promotion of agriculture as a business:</u></p> <ul style="list-style-type: none"> • The development and implementation of an outreach, knowledge management and dissemination strategy using youth-friendly ICT (social media, networking, etc.) to promote project and opportunities in modern agriculture, with a particular attention to gender equity. A change in mind-set that will see agriculture as a viable business and career opportunity will be the objective. This will include documenting and connecting successful youth agricultural entrepreneurs (agripreneurs) throughout the project. • Partner with public and private stakeholders including business development organizations in the area of mentorship, market linkages, and other business services. <p><u>Sub-component 2: Access to markets, land and financial services for youth agribusiness ventures:</u></p> <ul style="list-style-type: none"> • Conducting land accessibility assessment for guiding youth agripreneurs on land access and tenure issues; • Establishing Risk Sharing and Financing Mechanism (interest free loan and Risk Guarantee Fund (RGF) for financing youth agribusinesses. • Financial Sector Assessment in Eritrea • Conducting a comprehensive value chain assessment/market assessment <p><u>Sub-component 3: Upgrading of Youth Agribusiness Incubation Centers (YABICs):</u></p> <ul style="list-style-type: none"> • Conduct detailed value chain mapping and needs assessment of incubation centres. • Agreements with YABICs hosting partners finalized and signed • Rehabilitate and equip YABICs, where necessary. • Establish YABIC Resources Centres in each incubation centre for target youth to access all the information and services under this project;

No	Component Name	Cost (USD million) and % allocation	Component Description
2	Entrepreneurship and Agribusiness Incubation	5.29 (26.63%)	<p>This component aims at the operationalization of the agribusiness incubation and acceleration programs. A service provider responsible for conducting agribusiness incubations, training of trainers (TOT), business to business (B2B) networking and exchange, and providing technical assistance to the PIU and YABICs will be recruited through a competitive process. Activities to be carried out under this component include the following two sub-components:</p> <p><i>Sub-component 1: Agribusiness Incubation Activities:</i></p> <ul style="list-style-type: none"> • Developing criteria for youth selection: the activity seeks to develop selection criteria and screening methods to identify youth based on aptitude and interest in agribusiness entrepreneurship. This will be developed by a selection committee drawn from main stakeholders of the project including MOA, EDIB, MOF, Ministry of Marine Resources, Ministry of Local Governments, Youth & Women associations; • Selection of the candidates with targeting 50% participation of each gender; • Conduct incubations in six month-long cycles in each YABICs. Expected to train and empower 1000 youth. During incubation, the youth through experiential learning will be trained on market assessment and research, business planning, marketing, financial planning, risk assessment, and preparation of budgets as well as interpersonal skills such as addressing audiences, negotiation skills, stress management, teamwork, program approach, group facilitation, etc. The youth will also be trained on deep understanding of agriculture value chains, how to identify promising agribusinesses along them, business plan development including product and enterprise formulation, business pitches, financing opportunities and negotiation, setting and reaching business targets, and business management for growth. • Identification and establishment of market linkage/off taker arrangements. <p><i>Sub-component 2: Business plans and loan applications</i></p> <ul style="list-style-type: none"> • Bankable agribusinesses proposals developed by Agripreneurs as individuals or in partnership under the guidance of Agribusiness Incubation Service Provider and other mentors drawn from the finance and business communities. • Agripreneurs develop business plans for loan applications under the guidance of Investment/Loan Officers from participating financial institutions; • Establish partnerships with agribusiness companies and other stakeholders for effective transition, market access and other financing services.
3	Financing Youth Agribusinesses	9.69 (48.83%)	<p>This component addresses the financial services enabling the youth agribusiness start-ups and implementation of the Risk Sharing and Financing Mechanism (RSFM). Under this framework, USD 4 million will be allocated for financing youth start-ups in the form of interest free loans. Another USD 4 million will be reserved as a risk guarantee fund intended for catalysing additional resources through de-risking Participating Financial Institutions (PFIs). Other activities under this component include:</p> <ul style="list-style-type: none"> • TA Program to build and strengthen capacity of Eritrean Investment and Development Bank in hosting and managing the youth financing facilities of the project;

No	Component Name	Cost (USD million) and % allocation	Component Description
			<ul style="list-style-type: none"> Capacity building for PFIs in support of agri-business lending; and Post incubation follow up and monitoring.
4	Project coordination and management	1.98 (10.00%)	<ul style="list-style-type: none"> Coordinate day to day project activities and undertake supervision, monitoring, evaluation, reviews and reporting functions; Conduct inception, planning, thematic, interim and synthesis meetings Project procurement, disbursement, financial management, audit and reporting.
Total Project Cost		19.85 (100.0%)	

2.2. Technical Solutions Retained and Other Alternatives Explored

2.2.1 The design of the Bank's ENABLE Youth Program is based on a model developed by the International Institute of Tropical Agriculture (IITA) Youth Agripreneurs. The model, piloted in number of countries in Africa, provides mentorship and hands-on training to youth through agribusiness incubation centres to help them develop agribusiness enterprises along selected agricultural value chains. In the context of ENABLE Youth Eritrea adjustments were made to the IITA model by having a (i) shorter incubation period. Building upon lessons learnt from other ongoing Bank ENABLE Youth projects, agribusiness incubation centers are selected from leading private and public businesses, which are engaged in commercially viable agribusinesses, the incubation period is therefore reduced from 18 months to 6 months. This will allow not only cost saving, but also training more youth during the project lifespan. (ii) Project resources are structured to accommodate not only the risk sharing fund to de-risk Participating Financial Institutions (PFI), but also financing youth in the form of interest free loans.

Table 2.2: Alternatives Considered and Reasons for Rejection

No	Alternative Name	Brief Description	Reasons for Rejection
1.	IITA Approach	IITA Youth Agripreneurs model recommends 18 month incubation period	Too long and too costly. In Eritrea, existing private and public agribusinesses are used and youth are immediately exposed to experiential learning environment. Therefore, six-month long incubations are sufficient.
2.	Project establishes its own incubation centers	The project to create its own YABICs as this will be more convenient and easily manageable for the executing agency.	In addition to being costly with limited qualified staff and training facilities, no business and industry links.
3.	Focus on Risk Sharing Facility alone	Project resources to be used as a guarantee fund to leverage financing resources from PFI.	Funding agripreneurs with seed or start-up capital to launch their own businesses before they graduate to commercial lending is very critical for the survival of early-stage agribusinesses and therefore for the success of this project.

2.3. Project Type

2.3.1 The ENABLE Youth Eritrea is a skills and capacity development project for youth, whose Bank financing will come from the TSF Pillar I window. Under the ADF-14 Performance Based Allocation (PBA) Country Classification and Financing Terms for 2019 issued in January, the State of Eritrea is categorized as an ADF Regular Country with moderate risk of debt distress and eligible to receive 50% grants and 50% loans. However, the IMF Article IV consultations and Debt Sustainability Analysis

(DSA) on Eritrea, concluded on 22 July 2019, indicate that the State of Eritrea is at a high risk of debt distress (Appendix 5). Annex II, Section II.18 of the ADF-14 Guidelines provides that ADF –Only countries classified as “high risk of debt distress” qualify for 100% grants only. Based on this, Management proposes and recommends that the Board;

- (a) approves the conversion of the State of Eritrea’s 2019 Performance - Based Allocation (PBA) into grants only; and,
- (b) approves the proposed Transition Support Facility (TSF) Pillar I Grant of UA 12,000,000 to the State of Eritrea.

2.4 Project Cost and Financing Arrangements

2.4.1 The project cost is estimated at USD 19.85 million net of taxes and custom duties, based on 2019 prices, comprising USD 15.39 million local costs and USD 4.47 million foreign costs. This cost is inclusive of physical and price contingencies. The price and physical contingencies are estimated at average rate of 5%. Financing of the project is expected from TSF² Pillar I (USD 18.11 million) and Government of Eritrea (USD 1.74 million). The Government contribution will cover staff salaries, office space and operating costs. The summary of the project costs by components and source is indicated in the two tables below.

Table 2.3: Summary of the project cost estimates by components

Components	USD (‘000)		
	Local	Foreign	Total
Component I: Enabling Environment for Youth Empowerment	1,375.0	1,415.0	2,790.0
Component 2: Entrepreneurship and Agribusiness Incubation	4,698.6	245.0	4,943.6
Component 3: Financing Youth Agribusiness	6,774.0	2,506.0	9,280.0
Component 4: Project Coordination and Management	1,606.3	293.1	1,899.4
Total Baseline Cost	14,453.9	4,459.1	18,913.0
Physical Contingencies	45.0	15.0	60.0
Price Contingencies	875.4	0.0	875.0
Total Project Cost	15,374.3	4,474.1	19,848.4

Table 2.4: Project financing by source

Source	Amount USD (‘000)			% of Total
	Foreign	Local	Total	
TSF Grant	4,459.10	13,649.3	18,108.4	91.2
Government	0.0	1,740.0	1,740.0	8.8
Total	4,459.1	15,389.3	19,848.4	100.0

Table 2.5: Project cost by category of expenditure per year

	Amount USD (‘000)		
	Foreign	Local	Total
Civil works	315.0	971.4	1,286.4
Goods	1,305.0	402.0	1,707.0
Services	965.0	507.7	1,472.7
Miscellaneous	1,889.0	8,125.4	10,014.4
Operating costs	0.0	5,367.9	5,367.9
Total Project Cost	4,474.0	15,374.4	19,848.4

² This includes Euro 1.38 million contribution from the Government of Italy towards upgrading and equipping the five agribusinesses incubation centers under the project. These youth incubation centers are expected to train and empower 1000 youth (50% female) out of which 800 youth agribusinesses (50% female owned) and 5,000 (50% female) direct jobs are created.

Table 2.6: Project components by year (USD ‘000)

Components/Year	Year					Total
	2020	2021	2022	2023	2024	
Component I: Enabling Environment for Youth Empowerment	817.3	2,069.1	0.0	0.0	0.0	2,886.4
Component 2: Entrepreneurship and Agribusiness Incubation	30.3	1,311.7	1,293.8	1,323.1	1,326.7	5,285.6
Component 3: Financing Youth Agribusiness	400.7	4,488.8	376.1	4,349.6	76.3	9,691.5
Component 4: Project Coordination and Management	814.3	279.8	291.7	293.2	305.8	1,984.9
Total	2,062.6	8,149.5	1,961.7	5,966.0	1,708.7	19,848.4

2.4.2 Financing Youth Agribusinesses: A critical component of the ENABLE Youth Eritrea is access to finance through the establishment of Risk Sharing and Financing Mechanism (RSFM). Under this framework, the project will have three facilities:

- ***Interest Free Facility (IFF)***: USD 4 million is to be committed in the form of interest free financing up to USD 5,000 for each graduate of the ENABLE Youth project as seed capital to support the early stage business activities including, among others, acquisition of critical equipment. This allows the youth agripreneurs to purchase critical assets that will later become useful as a form of collateral when they approach commercial banks for longer-term financing. The PIU in collaboration with the fund manager, the Eritrean Development Investment Bank, will develop eligibility criteria and guidelines on how these interest free loans are awarded. To ensure the sustainability IFF facility, a revolving fund will be established to utilize the repaid amount for the same purpose.
- ***Risk Sharing Facility (RSF)*** - USD 4 million is to be allocated as a risk sharing fund to support the deployment of guarantees to reduce the risk of lending by commercial banks to youth engaged in agribusiness. Under this risk sharing mechanism, youth agripreneurs will be eligible for commercial loans of up to USD 30,000 from the local PFIs. In order to offset managing fee of the facility, the fund manager is expected to invest funds to generate additional revenue in addition to charging PFIs an annual guarantee fee. During the facility design, the consultant will review and in consultation with the Bank of Eritrea and other financial institution, indicate a term sheet for the facility.
- ***Technical Assistance Facility (TAF)***: USD 1 million is to be committed to a TA facility to build capacity of banks to lend and build delivery platforms in support of agri-business lending. Training in the development of appropriate products like loan packages that fit into the agriculture sector production cycle may be required. The TA will also serve to train staff of the EDIB and participating financial institutions in agribusiness lending for improved loan processing and monitoring. As informed by a preliminary institutional assessment done during project appraisal, the technical assistance will focus in the improvement of three critical areas: 1) Process and systems, 2) Information technology, and 3) Staff capacity and knowledge of the agriculture value chain.

2.4.3 The Eritrean Development Investment Bank (EDIB) will host and manage the RSFM facilities. EDIB is a deposit-taking institution, regulated by the Bank of Eritrea, and owned by the Government. About 60% of its current portfolio is in the agricultural sector. The EDIB has confirmed its commitment to host and administer ENABLE Youth financing facilities and agreed to setup a dedicated unit to manage the facilities. The role of Fund Management is not new to EDIB as it has in the past hosted and implemented an Agriculture Credit Fund provided by AfDB under a revolving fund system to support agricultural enterprises. A consultancy firm would be recruited to support the design and structuring of the RSFM and to conduct a detailed assessment on its capacity to deliver on this assignment. The consultant will also conduct a Financial Sector Assessment in Eritrea that will cover critical areas relating to banking supervision, banking sector structure and efficiency, financial inclusion, access to finance and financial sector development.

2.4.4 More details of the financing instruments of the ENABLE Youth Eritrea including draft Terms of References for the design and structuring of the RSFM framework is provided in Annex C2 (Technical Annexes).

2.5. Project Target Area and Population

2.5.1 The ENABLE Youth Eritrea project will be implemented in five Youth Agri-Business Incubation Centers selected from leading private and public businesses, which are engaged in commercially viable agribusinesses. The proposed YABICs are located in four out of the 6 regions in Eritrea: Asmara Flowers PLC, Gashinashim Dairy Farm (Maekel region), Hagaz Agri-technical School (Anseba Region), Azieb Dairy Farm (Debub Region) and College of Marine Resources (Northern Red Sea Region). Government will sign an agreement with private businesses hosting the incubation activities under a PPP arrangement with clear roles and responsibilities of each party. Incubation host institutions were evaluated based on the availability of space, land, and the basic structures that met the needs for operating an incubation center. The project will span the entire agriculture value chain in key priority value chains including horticulture, dairy, and fisheries from production (input supplies, equipment leasing, seeds and fertilizer); processing and value addition; to marketing and logistics, including buying and selling of agricultural produce, and exports.

2.5.2 The targeted beneficiaries are youth between the ages of 18 to 35 years with at least a secondary school graduates/certificate in any field of study with 50% participation of each gender. The project will train and empower 1000 youth, out of which 800 agribusinesses are expected to be generated. Agripreneurs that are not successful in establishing businesses will find themselves better positioned to enter the professional agriculture jobs market and find decent employment with public and the private sector. Moreover, each of the agribusinesses is expected to employ on average five other support workers, generating about 5,000 direct jobs. Breakdown of expected number of agripreneurs trained, business applications funded, and jobs created are detailed in the Annex C1 (Technical Annexes). Additionally, the project will have an impact on Eritrea's social, human and financial capital at farm and rural enterprise levels in targeted commodity value chains of horticultural, livestock and fisheries products, as well as from input supplies, equipment leasing, value addition and marketing.

2.6. Participatory Process for Project Identification, Design and Implementation

2.6.1 The request for financing of this project came from the GoSE and its components and activities were identified as part of broad consultations undertaken during the preparation and appraisal missions. Extensive consultations were conducted with senior government officials of the Ministry of Finance, Ministry of Agriculture, Bank of Eritrea, Eritrean Investment and Development Bank (EDIB), Commercial Bank of Eritrea, Youth Associations, Eritrean Women Agribusiness Association (EWAA) and other stakeholders including development partners (EU, FAO, UNDP, WB, and UNICEF). The mission visited all of five proposed project YABICs and held discussions with the host institutions and other stakeholders.

2.6.2 The participatory process will continue throughout project implementation to ensure ownership and sustainability. Involvement of project by host YABICs and mentors from the private sector, business associations, and youth associations will further engender participation. The identification, planning and implementation of agripreneur trainings as well as the coordination of activities in the YABICs and the choice and establishment of agribusinesses will be driven by youth.

2.7. Bank Group Experience and Lessons Reflected in Project Design

2.7.1 The Bank currently has 6 operations in Eritrea with a total commitment of UA 37.8 million. UA 16.8 million are in Agriculture Sector supporting two projects under the Drought Resilience and Sustainable Livelihoods Program (DRSLP-II and DRSLP IV) with no issues in satisfying conditions precedent to first disbursements. The performance of the Bank's portfolio in Eritrea is assessed to be satisfactory, with an overall rating of 3.0 and cumulative disbursement of 17.4%. However, out of the six operations, three are flagged for slow procurement and disbursement mainly due to Government suspension of construction works because of limitations on imported building materials (cement and concrete iron rods). The Government has recently eased the construction freeze and the projects are expected be out of flagged operations soon. Additionally, weak procurement capacity and contract management of the PIU contributed to some of the procurement delays. In response, the Bank has recently started conducting periodic fiduciary clinics to address the issue.

2.7.2 The Bank has drawn lessons from other similar Bank operations in the continent. These include ENABLE Youth projects in Sudan, Kenya, DRC, Malawi, Cameroon, and various youth-employment related initiatives of the Bank's Human Capital, Youth and Skills Development Department including the Skills Development for Employability and Entrepreneurship Project (SDEEP) in Eritrea. Additionally the design of this project will build upon successes and challenges of the GoSE and development partners' other efforts in youth employment and empowerment. These include Youth Skills Development in Eritrea by the National Union of Eritrean Youth and Students (NUEYS), with financial support from Norway, Japan and UNDP. The project is providing youth with vocational skills and training to equip them for improved employment. Some of the lessons learnt which have informed the proposed operation include the need for (i) Financial institutions still reluctant to lending to agripreneurs even with existence of risk sharing facilities. Therefore project provides youth with seed and/or start-up capital to launch their businesses before they graduate to commercial lending; (ii) a robust result oriented monitoring and evaluation system; and (iii) Good quality-at-entry through studies and assessments for better implementation progress and faster delivery of project outcomes/benefits. The project will use Advance Contracting procedures with the appropriate safeguards to start procurement processes prior to the project approval.

2.7.3 The lessons learned from the above mentioned interventions are detailed in Annex B1 (Technical Annexes). The main lessons applied to the project are described in Table 2.7

Table 2.7: Lessons learned and reflected in project design

No	Lessons Learnt	Actions incorporated in the project design
1.	Commercial banks still reluctant to finance youth even with the existence of risk sharing mechanism.	Funding youth with seed or start-up capital to launch their own businesses is very critical for the survival of early-stage agribusinesses before they are ready for commercial lending. Therefore, ENABLE Youth Eritrea is structured to have an interest free loan facility to finance early-stage agribusinesses.
2.	Weak credit appraisal by financial lending institutions due to lack of technical capacity in delivering agricultural credit.	Technical assistance to build capacity of banks to lend and build delivery platforms in support of agri-business lending is included in this project.

No	Lessons Learnt	Actions incorporated in the project design
3.	Inadequate consultation with stakeholders in some project designs and preparations compromised sustainability and ownership	Components and activities under this project were designed and prepared with full participation of all stakeholders including government, target youth, private sector, commercial banks, insurance companies, and development partners.
4.	Weak procurement capacity and contract management of the PIU	The Bank agreed with the Government of State of Eritrea to conduct fiduciary clinic every year to ensure strengthened capacity. Furthermore, the Bank arranges periodic technical and managerial trainings for agriculture sector projects staff.

2.8. Project Performance Indicators

2.8.1 The Project's key performance indicators to be measured throughout its lifecycle are presented in the Results Based Logical Framework. The M&E expert of the PIU will carry out internal project monitoring and evaluation in collaboration with the other PIU staff to monitor performance of the project. Regular implementation progress will be measured through Quarterly Progress Reports, bi-annual Bank supervision missions, and annual technical and financial audits. Effort will be made to ensure gender-disaggregated data at every level and where applicable. The main indicators defined for monitoring the project outputs and impact include (i) number of candidates selected & trained (50% females), (ii) the number of new businesses established by young men and women; (iii) number of skilled and unskilled jobs created (at least 50 % female) by agripreneurs; and (iv) youth unemployment level decrease, again interpreted in a disaggregated manner and (v) number of business plans developed, submitted and financed including business pitches by agripreneurs. The Bank will field supervision missions at least twice a year. The PIU will prepare and submit quarterly progress reports according to the format and procedures of the Bank. The Mid-Term Review will be undertaken in PY3. Project Completion Report will be prepared during PY5.

III – PROJECT FEASIBILITY

3.1. Economic and Financial Performance

3.1.1 The financial assessment of the project was undertaken using cost-benefit analysis of ex-ante crops and productive activities models, on the basis of prevailing 2019 market prices. The economic analysis was carried-out using shadow pricing method by adjusting market or financial prices to their values under optimal operation of markets, in line with the Pareto Optimum criterion. Such prices values are also referred to as their values to society. Both financial and economic analyses were carried-out using the financial and economic costs generated by COSTAB. The results of the economic analysis show that the economic internal rate of return is positive and above the 12 percent social discount rate, reflecting the fact that the allocation of resources is beneficial to the country. Summary of financial and economic analyses is presented in Table 3.1, and detailed in Annex B7 of the Technical Annexes.

Table 3.1: Key Economic and Financial Figures

NPV (base case @ 12% cost of capital)	USD 33 million
FIRR (base case @ 12% cost of capital)	24%
EIRR (base case @ 12% cost of capital)	25%

3.1.2 A sensitivity analysis was carried out considering reasonable variations in costs and benefits. The switching values confirm that the results are relatively robust as the probability of decreasing yield by 57% is relatively low. Detailed calculations are available in Annex B7 of the Technical Annexes.

3.2. Environmental, Social, and Climate Impacts

3.2.1 Environmental issues: The project activities are primarily skills training and capacity building with minimal impact on the physical environment. The project's activities take place within existing institutions/facilities with no resettlement or displacement. The project is classified as category III and therefore, no Environmental and Social Impacts Assessments (ESIA) is required. However, training activities in the project will include subjects related sustainable natural resources management, and climate change risks and adaptation measures.

3.2.2 Gender Issues: The MOA has a Gender Mainstreaming Strategy that aims to ensure all projects involve women in planning, implementation and in accruing project benefits. The mechanisms to ensure social inclusion and gender equality in this project include appropriate outreach strategy and gender sensitive training, as well as adequate provisions for both genders to ensure retention.

3.2.3 The gendered division of labour in Eritrea is apparent in the agricultural sector, where 90% of female workers are employed as compared to 78.5% of men.³ In the pastoralist and semi-pastoralist areas of the lowlands, women's roles tend to be linked to processing and preparing food as well as milking animals such as goats and cows. While men and women both work in the fields and share agricultural work, women have additional responsibilities relating to the household.

3.2.4 Women are traditionally involved in subsistence farming and household labour with few livelihood alternatives, and as a result, they are particularly affected by food insecurity. Female-headed households are among the most vulnerable to drought, yet they often have fewer coping mechanisms or access to alternative livelihood options. This lack of resilience can lead to further negative consequences such as going without food themselves, taking children out of school to support the household, or taking on additional work outside the home to supplement food or income. Despite women's significant production and domestic roles in relation to agriculture, men tend to be the main beneficiaries of agricultural extension services which allows them to invest in and create a more viable livelihood from their agricultural activities. Women are limited in their ability to access these services due to factors such as illiteracy, lack of transportation and a lack of access to credit.

3.2.5 The latest available data from 2015 shows that the female labour force participation rate (aged 15+) is 77.8%, but the vast majority of female workers are in low-skilled and low-paying occupations and their limited education and financial capacity leads them to be more likely to be engaged in the informal sector. Compared to men, women are also widely under-represented in many sectors, especially science and technology, and in managerial or decision-making positions. There were more than twice as many male as female employers in 2018, and only 7.6% of firms in the country have a female top manager.

3.2.6 The ENABLE Youth project is assessed to be Category 2 as per the Bank's Gender Marker System (GMS). The project has two outcomes to address some of the gender equality issues. It will ensure that there is equitable employment and that half of businesses established are women-owned. Other details on Gender are in Technical Annex B.9.

3.2.7 Social and economic importance: The ENABLE Youth project has numerous social and economic benefits in the target regions. The benefits will include among others: (i) enhanced employment opportunities; (ii) increased agribusinesses enterprises (iii) improved incomes for youth and farmers; (iv) improved living standards; (v) improved national income through increased exports; (vi) improved industrialization through processing and value addition; and (vii) reduced rural-urban migration. The

³ World Bank, 2019, GenderStats data.

MOA recognizes that social inclusion and gender equality are priority and aims to ensure all projects involve women in planning, implementation and in accruing project benefits.

3.2.8 Climate Change Screening: The project is screened as category III, which means its activities are not vulnerable to climate risk and no further action is required. However, the youth training curricula is recommended to ensure adopting low carbon climate resilient solutions for agripreneurs. This will increase their chances of success by ensuring that they develop businesses that are resource efficient and less vulnerable to climate change events such as droughts and floods.

3.2.9 GHG Accounting and Reporting is not relevant to this project as the emissions associated with its implementation will be very small however, the curricula should be assessed to ensure that training activities in the project should address issues such as sustainable land use management and the need to mitigate GHG emissions. Land use and land use change is the largest source of GHG emissions in Africa. Climate Smart Agriculture practices can help address GHG emissions as well as improve climate resilience.

3.2.10 Contribution to Climate Finance: According to the MDB Joint Adaptation Climate Finance Tracking methodology, climate aware training in the water and agri-sectors are eligible adaptation actions. This project will help the Eritrea's youth and economy become less vulnerable to climate change by increasing the number of successful agribusinesses, creating income for households and communities and boosting food security, all of which help reduce vulnerability to climate change.

3.2.11 Based on the above analysis, this project is considered to be 100% climate adaptation finance and will contribute to the Bank's climate adaptation finance target.

IV – IMPLEMENTATION

4.1. Implementation Arrangements

4.1.1 The Ministry of Agriculture is the executing agency of the ENABLE Youth Eritrea. The project will use the existing Project Implementation Unit (PIU) for the DRSLP projects. However, the PIU staff will be expanded to include Agribusiness Officer, M&E, Procurement, Financial Controller, Accountant, Cashier as well as administrative assistant to support the implementation ENABLE Youth project. Additionally, a focal person will be appointed for each of the 5 YABICs of the project. The existing multi-sectoral Steering Committee (SC) chaired by the DG of the Agricultural Extension Department will be responsible for project oversight, overall policy guidance, strategic direction, review and approval of work plans, and budgets.

4.1.2 A service provider responsible for conducting incubation trainings and providing technical assistance to the PIU and YABICs will be recruited through a competitive process. The firm will also be responsible for the development and implementation of hands-on training in entrepreneurship and agribusiness development program. The program will provide all the support services necessary to successfully develop the skills of youth entrepreneurs and agribusiness development planning and management.

4.1.3 EDIB is agreed to be in charge of hosting and administering both the Interest Free and the Risk Sharing Facilities of the ENABLE Youth project. A subsidiary agreement that guides the manner in which these funds will be managed will be arranged between GoSE and EDIB. A governance and reporting structure between the EDIB and ENABLE Youth PIU allowing for oversight of the Ministry of Agriculture will also be developed. Other activities under EDIB will include development of detailed requirements and guidelines for screening youth agribusiness plans and loan applications in collaboration with PIU, including a report metrics on assessing youth creditworthiness, and developing RSF business plans and monitoring of investments.

4.1.4 *Project Readiness*: in preparing the project, measures were put in place to ensure timely start-up, including compliance with the Bank's Presidential Directive (PD 02/2015) on disbursement. The measures include the use of advance contracting and prompt preparation of tender documents to fast track project implementation. The Ministry has also appointed (seconded) staff members of the ENABLE Youth PIU.

4.1.5 Procurement Arrangements: Procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the "Procurement Policy for Bank Group Funded Operations", dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, Procurement would be carried out following:

4.1.6 Borrower Procurement System (BPS): Specific Procurement Methods and Procedures (PMPs) under BPS comprising its Regulations, using the national Standard Solicitation Documents (SSDs) or other Solicitation Documents agreed during project negotiations" for various group of transactions to be entailed under the project.

4.1.7 Bank Procurement Methods and Procedures (BPP): Bank standard PMPs, using the relevant Bank Standard or Model Solicitation Documents SDs, for contracts that are either: (i) above the above-captioned thresholds, or (ii) in case BPS is not relied upon for any category of procurement; and

4.1.8 The various items under different expenditure categories and related procurement arrangements for each contract to be financed by the Grant together with the respective procurement methods or consultant selection methods, estimated costs, prior-review requirements, and time frame as agreed between the Recipient and the Bank are detailed in the Procurement Plan under Annex B5 of the Technical Annexes. To ensure timely project start-up, the Government has requested Bank's no objection to follow advance contracting procedures for key procurement contracts in the project including (i) designing and structuring the RSFM framework, (ii) recruitment of a service provider to conduct incubation activities in 5 YABICs, (iii) development and implementation of a youth outreach strategy. The Bank has already cleared the request and procurement procedures are underway.

4.1.9 Procurement Risks and Capacity Development: the assessment of procurement risks at the Country, Sector, and Project levels and of procurement capacity at the Executing Agency (EA), were undertaken for the project and the output have informed the decisions on the procurement regimes (BPS and Bank) being used for specific transactions or groups of similar transactions under the project. Details aspects of the procurement packages, review procedures, thresholds and requirements are elaborated under Annex B5 of the Technical Annexes.

4.1.10 Financial Management and External Audit: The Project will make partial use of the Country Systems as well as the Bank's Financial Management (FM) and Disbursement Policies and Procedures. The FM arrangements under the on-going DRLSP Program will apply to the Project. The Overall authority and responsibility will rest with the Minister of Agriculture (MoA). The Director General (DG) of the Agricultural Extension Department (AED) will be the accounting officer while the Project Steering Committee (PSC) will provide policy and implementation oversight including approval of the Project plans and Budgets. The existing Project Implementation Unit (PIU) in the AED will oversee the day-to-day implementation of the project. However, the accounting staff in the PIU will be strengthened with assignment of additional staff including one (1) Financial Controller, one (1) Accountant and one (1) cashier who will work on a full-time basis under the Project.

4.1.11 The FM and payment system for the project will be centralised at the PIU. Duly approved documentation for the activities executed by the YABICs shall be submitted to the PIU to effect payment. The PIU, shall maintain separate records and ledger accounts in respect of the project transactions using the in-house developed Roshi Accounting Software. The chart of accounts in the Roshi Accounting Software will be adapted to include the loan, grant and other sources of funding towards the project as separate sources of financing. The project will comply with the existing internal control rules and regulations prescribed in the Finance Disbursement and Finance Code Manual of the GOSE and the Bank Rules and Guidelines. In addition, a comprehensive Risk Sharing and Financing Mechanism operations manual will be developed to support the implementation of the two (2) youth financing facilities – Interest Free Loans and Risk Sharing Facility. The AED internal auditors will conduct regular audits of the Project processes using a risk-based approach. In addition, the Bank will field supervision missions to provide additional FM implementation support.

4.1.12 The PIU shall prepare interim financial reports (IFR) as part of the Quarterly Progress Reports (QPR) as required by the Bank, not later than 45 days after the end of each quarter. In addition, the project financial statements shall be prepared on an annual basis. The Project will be subject to independent audits based on the Bank's standard audit terms of reference (TORs) using competitively recruited private auditors.

4.1.13 Disbursement Arrangement: In regard to funds flow and disbursements, the Project will use the Direct Payment method and the Special Account (SA) method for disbursements as laid out in the Disbursement Handbook. However, the other two methods, namely the Reimbursement Method and the Reimbursement Guarantee Method, will be used subject to approval of the Bank. The direct payment method will be used mainly for payment of consultants and goods. In order to facilitate the use of the SA method, the MoA will open one (1) special account (denominated in USD) and one (1) Project account (denominated in NAKFA) for the project management and coordination at the Bank of Eritrea (BoE), to finance eligible project expenses such as meetings, capacity building, project monitoring and evaluation and project overheads. The opening of the SA will be part of the other disbursement conditions to be fulfilled by the MoA.

4.1.14 In the case of disbursement arrangements relating to the ENABLE Youth financing facilities, namely the IFF and the RSF, funds shall be disbursed directly to the Eritrean Investment and Development Bank which has the responsibility for hosting and administering the two (2) facilities. To this end, a Subsidiary Agreement between EDIB and the MoA, detailing the Terms and Conditions for the management of the two (2) facilities, will be required as a precondition for disbursement. Moreover, the EDIB will open two (2) dedicated USD denominated bank accounts (an account for each facility), in a bank acceptable to the Fund to facilitate the flow of funds directly from the Fund. The Subsidiary Agreement and a comprehensive RSFM Operation Manuals approved by the Bank will detail the required pre-conditions for the replenishment of these dedicated bank accounts. The Bank will issue a disbursement letter, which will provide specific guidelines on key disbursement procedures and practices.

4.2. Monitoring

4.2.1 ENABLE Youth Eritrea will put in place an adequate computerized Monitoring and Evaluation (M&E) system based on a results-based framework with an emphasis on outcomes and impacts, as well as the regular monitoring of inputs and outputs covering the four main components. Effort will be made to ensure gender-disaggregated data at every level and where applicable. The project will make use of national data sets (e.g. National Statistics Office, Youth employment statistics, Household surveys) and Project reports whenever possible. The Bank will field supervision missions at least twice a year. The PIU will prepare and submit quarterly progress reports according to the format and procedures of the Bank. The Mid-Term Review will be undertaken in PY3. Project Completion Report will be prepared during PY5. Below is a summary of provisional project implementation schedule.

Activity	Responsible Entity	Timeframe
Appraisal	ADF	August 2019
Negotiations	Government/ADF	October 2019
Project Approval	ADF	November 2019
Signature of Grant Agreement and effectiveness	Government/ADF	December 2019
Fulfilment of 1 st Disbursement Conditions	ADF	January 2020
Project Launching	ADF/ Government/ PIU	January 2020
Service Delivery	PIU/Service providers	February 2020/ December 2024
Mid-term Review	ADF/Government/PIU	June 2022
Completion Report	ADF/ Government/ PIU	December 2024 or when 85% disbursement rate achieved
Auditing	Government/ PIU	Annually

4.3. Governance

4.3.1 Recent international assessments including Ibrahim Index of African Governance show that Eritrea has improved its accountability and transparency ratings and indicators of governance access to justice, absence of corruption in government branches, capacity of election monitoring agencies, ratification and reporting of international human rights, and women's political empowerment. Other notable areas of improvement include the business-enabling environment, government development of regional integration, access to agricultural research and extension services, participation of rural organizations, and health indicator on the absence of communicable diseases. In spite of registering progress in recent years, the country still faces challenges on some governance indicators among others, the management of online public services and budgetary and financial management.

4.3.2 The main governance issues for the project are related to contracting and bidding processes mainly to gaps in PIU knowledge on Bank procurement rules and procedures. To mitigate the problem, the project will conduct fiduciary clinic every year to ensure strengthened procurement and contract management capacity. The Bank will also ensure that the PIU is trained on Bank requirements and guidelines during the project launching. Supervision missions and audits will monitor adherence to Bank standards and procedures to ensure value for money is achieved.

4.4. Sustainability

4.4.1 The ENABLE Youth project aims to create a pool of young entrepreneurs who will receive support to set up their own businesses. The project will equip YABICs with the agribusiness incubation management and implementation capacities needed to provide quality support services to youth over the long term. In addition, capacity building of the PIU, banks and private sector, and other stakeholders on planning, delivery, and monitoring of youth entrepreneurship programming will provide the necessary knowledge, experience, and ownership for successfully managing a youth entrepreneurship program beyond the project lifespan. Another key factor of the project's sustainability is the establishment of Risk-Sharing and Financing Mechanism for the project to facilitate sustainable access to finance for agripreneurs even after the project closes. Early stage interest-free loan provision, launching and testing of their business cases during the incubation stage is also another element of sustainability. Furthermore, the GoSE attaches special significance to this project as it is addressing youth employment and empowerment, which is a high priority area for the Government.

4.4.2 The private sector is key to the management and sustainability of the agricultural value chain development. In view of this, the government will strengthen the agricultural policy analysis and planning and formulate additional appropriate policies when deemed necessary, facilitate linkages to local and export markets and ensure enforcement of enacted regulations. Another key factor of the project's sustainability is the establishment of Risk Sharing and Financing Mechanism to facilitate sustainable access to finance for agripreneurs even after the operation closes as repayments are collected in a revolving fund to utilize the repaid amount for the same purpose.

4.5 Risk Management

4.5.1 A Potential risk to the successful execution of the project is related to potential failure of youth businesses start-ups. Training and handholding in building youth business skills and agribusiness start-ups management through mentorship and coaching, and post incubation follow-up and monitoring will be in place to mitigate the risk. Potential reluctance of financial institutions in financing youth agribusinesses. To mitigate this risk, part of the project resources will be allocated for financing initial youth start-ups in the form of interest free loans. Other potential risks include weak enabling environment to support youth entrepreneurship. Improved access/linkages to markets, land and financial services for youth agribusinesses under the project will mitigate this risk. Weak capacity of the PIU team might undermine effective conduct of their responsibilities of the project. Technical assistance and backstopping will be provided to the PIU in managing the incubation centers. The Bank will also conduct yearly fiduciary clinics to ensure strengthened capacity.

4.6 Knowledge Building

4.6.1 The ENABLE Youth Eritrea is one of the Bank's ENABLE Youth projects to introduce early stage financing facility under its financing component. The project is expected to generate considerable knowledge that will add value to the overall design and management of other ENABLE Youth operations and entrepreneurship development projects in Africa. Progress reports, audit reports, mid-term review reports, and completion reports as well as other information routinely collected, as part of monitoring and evaluation framework will be used to document the lessons learnt. PIU will collect, collate, and analyse data from all YABIC activities and participating financial institutions, including standardized M&E reports. The Bank will share this knowledge with other development partners and stakeholders engaged in youth empowerment in agribusiness.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

5.1.1 The financing instrument proposed is a TSF (pillar 1) grant of UA 13.05 million.

5.2. Conditions associated with the Fund's intervention

5.2.1 Conditions precedent to Entry into Force: The Protocol of agreement shall enter into force on the date of signature by the Recipient and the Fund.

5.2.2 Conditions precedent to First Disbursement: The obligation of the Fund to make the first disbursement of the Grant shall be conditional upon the entry into force of the Grant Agreement and the fulfilment by the Recipient, in form and substance satisfactory to the Fund, of the following conditions:

- (a) The execution and delivery of a Subsidiary Agreement between the Recipient and the Eritrean Development Investment Bank (EDIB) for the hosting and managing of the Interest Free Facility (IFF) and the Risk Sharing Facility (RSF) under the oversight of the Ministry of Agriculture in form and substance satisfactory to the Fund; and

5.2.3 Conditions Precedent to the disbursement of the IFF and the RSF resources to the EDIB: Subject to the provisions of Section 3.01 (*Entry into Force*) and Section 3.03 (*Condition Precedent to First Disbursement*), the obligation of the Fund to disburse the Grant for IFF and the RSF resources to the EDIB shall be subject to the fulfillment by the Recipient of the following additional conditions:

- (a) Disbursements for IFF facility shall be subject to:
 - i. **For the first disbursement;**
 - A. submission of evidence of the opening of a dedicated bank account by the Recipient in a bank acceptable to the Fund, for deposit of the IFF resources;
 - B. submission of evidence of development of the IFF operational manual in form and substance acceptable to the Fund; and
 - C. submission of evidence by the Recipient in form and substance acceptable to the Fund, a pipeline of business proposals submitted by Agripreneurs and approved for financing by EDIB and the Project PIU; and
 - ii. **For subsequent disbursements;**
 - A. submission of evidence by the Recipient in form and substance acceptable to the Fund, the establishment of youth-led agribusiness start-ups financed by the preceding IFF funds, and
 - B. submission of a pipeline of business proposals submitted by Agripreneurs and approved for financing by EDIB and the Project PIU.
- (b). **Disbursement for the RSF Facility in one (1) tranche amounting to Four Million United States Dollars (USD 4,000,000):**
 - A. submission of evidence of the Opening of dedicated bank account by the Recipient in a bank acceptable to the Fund, for deposit of the RSF resources;
 - B. submission of evidence of development of the RSF operational manual in form and substance acceptable to the Fund; and
 - C. Submission of evidence by the Recipient in form and substance acceptable to the Fund, that activities 1 and 2 (process and systems, and information technology improvements) of the Technical Assistance Facility have been successfully implemented.

5.2.4 Other Conditions

- (i) Not later than six (6) months after the entry into force of this Agreement, submission of evidence of appointing a focal person for each of the five (5) YABICS of the Project; and
- (ii) Not later than three (3) months after the entry into force of this Agreement, submission of evidence of assignment of the following staff to the Project Implementation Unit (the “PIU”) with qualifications and terms of reference acceptable to the Fund including (a) Agribusiness Officer; (b) Monitoring and Evaluation Expert; (c) Procurement Officer; (d) Financial Controller; (e) Accountant, (f) Cashier, and (g) Administrative Assistant.

Undertakings

The Recipient undertakes the following;

- (a) To provide the counterpart contribution to the Project in a timely and efficient manner during the Project implementation period;
- (b) To take all appropriate measures and actions necessary to ensure that the Grant proceeds are not used to finance;
 - (i) any of the activities under the Bank Group’s Negative list;
 - (ii) financial institutions or other, or otherwise finance projects, involving predatory lending or other forms of financial exploitation;
 - (iii) projects or portfolio of loans contracted by EDIB prior to the signature of the Protocol of Agreement between the Fund and the Recipient; and

- (c) To take all appropriate measures and actions necessary to ensure that the EDIB shall use the Grant proceeds pursuant to sound banking principles.

5.3. Compliance with Bank Policies

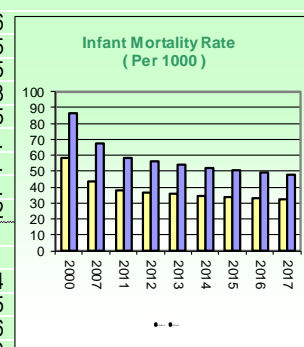
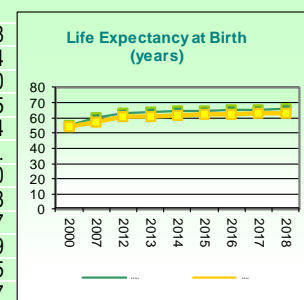
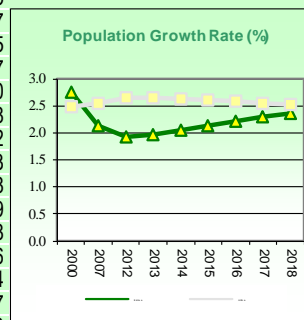
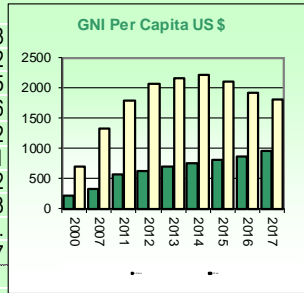
5.3.1 This project complies with all applicable Bank policies.

VI – RECOMMENDATION

6.1 Management recommends that the ADF and ADB Boards of Directors approve the proposed TSF (Pillar I) grant of UA 13.12 million comprising UA 12 million from the resources of the TSF Pillar I for the country and UA 1.12 million as the Italian Government contribution to the TSF Pillar I resources to the State of Eritrea for the purposes of this project and subject to the conditions stipulated in this document.

Appendix 1: Eritrea - Comparative Socio-economic Indicators

	Year	Eritrea	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)	2018	118	30,067	92,017	40,008
Total Population (millions)	2018	5.2	1,286.2	6,432.7	1,197.2
Urban Population (% of Total)	2018	40.1	42.5	50.4	81.5
Population Density (per Km²)	2018	55.6	43.8	71.9	31.6
GNI per Capita (US \$)	2017	887	1 767	4 456	40 142
Labor Force Participation *- Total (%)	2018	83.2	65.9	62.1	60.1
Labor Force Participation ** - Female (%)	2018	77.2	55.5	47.6	52.2
Sex Ratio (per 100 female)	2018	100.5	99.8	102.3	99.3
Human Develop. Index (Rank among 189 countries)	2017	179
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-2017	11.9	0.7
Demographic Indicators					
Population Growth Rate - Total (%)	2018	2.3	2.5	1.2	0.5
Population Growth Rate - Urban (%)	2018	4.0	3.6	2.3	0.7
Population < 15 years (%)	2018	41.5	40.6	27.5	16.5
Population 15-24 years (%)	2018	19.1	19.2	16.3	11.7
Population >= 65 years (%)	2018	3.6	3.5	7.2	18.0
Dependency Ratio (%)	2018	80.4	79.2	53.2	52.8
Female Population 15-49 years (% of total population)	2018	24.4	24.1	25.4	22.2
Life Expectancy at Birth - Total (years)	2018	66.0	63.1	67.1	81.3
Life Expectancy at Birth - Female (years)	2018	68.2	64.9	69.2	83.8
Crude Birth Rate (per 1,000)	2018	31.0	33.4	26.4	10.9
Crude Death Rate (per 1,000)	2018	6.5	8.3	7.7	8.8
Infant Mortality Rate (per 1,000)	2017	32.1	47.7	32.0	4.6
Child Mortality Rate (per 1,000)	2017	43.1	68.6	42.8	5.4
Total Fertility Rate (per woman)	2018	4.0	4.4	3.5	1.7
Maternal Mortality Rate (per 100,000)	2015	501.0	444.1	237.0	10.0
Women Using Contraception (%)	2018	14.1	38.3	61.8	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-2016	...	33.6	117.8	300.8
Nurses and midwives (per 100,000 people)	2010-2016	...	123.3	232.6	868.4
Births attended by Trained Health Personnel (%)	2010-2017	34.1	61.7	78.3	99.0
Access to Safe Water (% of Population)	2015	57.8	71.6	89.4	99.5
Access to Sanitation (% of Population)	2015	15.7	39.4	61.5	99.4
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2017	0.6	3.4	1.1	...
Incidence of Tuberculosis (per 100,000)	2016	74.0	221.7	163.0	12.0
Child Immunization Against Tuberculosis (%)	2017	97.0	82.1	84.9	95.8
Child Immunization Against Measles (%)	2017	99.0	74.4	84.0	93.7
Underweight Children (% of children under 5 years)	2010-2016	38.8	17.5	15.0	0.9
Prevalence of stunting	2010-2016	50.3	34.0	24.6	2.5
Prevalence of undernourishment (% of pop.)	2016	...	18.5	12.4	2.7
Public Expenditure on Health (as % of GDP)	2014	1.5	2.6	3.0	7.7
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-2017	49.4	99.5	102.8	102.6
Primary School - Female	2010-2017	45.6	97.4	102.0	102.5
Secondary School - Total	2010-2017	30.8	51.9	59.5	108.5
Secondary School - Female	2010-2017	29.1	49.5	57.9	108.3
Primary School Female Teaching Staff (% of Total)	2010-2017	38.4	48.7	53.0	81.5
Adult literacy Rate - Total (%)	2010-2017	...	65.5	73.1	...
Adult literacy Rate - Male (%)	2010-2017	...	77.0	79.1	...
Adult literacy Rate - Female (%)	2010-2017	...	62.6	67.2	...
Percentage of GDP Spent on Education	2010-2015	...	4.9	4.1	5.2
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	6.8	8.0	11.3	10.4
Agricultural Land (as % of land area)	2016	75.2	38.2	37.8	36.5
Forest (As % of Land Area)	2016	14.9	22.0	32.6	27.6
Per Capita CO2 Emissions (metric tons)	2011	0.1	1.1	3.4	11.0



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

February 2019

UNAIDS; UNSD; WHO; UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Appendix 2: AfDB's Active Portfolio in Eritrea (as of September 2019)

Sector	SAP Code	Project Title	Appr. Date	Age	Signature Date	Appr to Sign *	Into Force	Eff. IstDis	Actual Ist Disb	Appr to I° Disb *	Disb. Deadline	Source	UA Mill.	Disb Ratio	Last Supervision	Dashboard Status/ Alert
44% Agriculture -	P-Z1-AAZ-034	DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME DRLSLP II	26-Nov-14	4.9	6-May-15	5.3	31-Jul-15	31-Jul-15	28-Jan-16	14.3	31-Dec-20	ADF/Loan	5.8	43.5	Aug-19	Satisfactory
		DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME DRLSLP II	26-Nov-14	4.9	6-May-15	5.3	31-Jul-15	31-Jul-15	28-Jan-16	20.1	31-Dec-20	ADF/Grant	5.8	10.0		Satisfactory
	P-ER-AAZ-002	DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME DRLSP IV	24-Jan-17	2.7	5-Apr-17	2.4	22-Jun-17	24-Jul-17	19-Sep-17	7.9	31-Jul-21	TSF/Loan	3.0	31.8	Aug-19	Satisfactory
		DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME DRLSP IV	24-Jan-17	2.7	5-Apr-17	2.4	5-Apr-17	24-Jul-17	21-Sep-17	8.0	31-Jul-21	TSF/Grant	2.4	22.2		Satisfactory
Education - 36%	P-ER-IA0-001	SKILLS DEVELOPMENT FOR EMPLOYABILITY AND ENTREPRENEURSHIP- SDEE	3-Mar-15	4.6	6-May-15	2.1	22-Sep-15	22-Sep-15	2-Nov-16	20.3	30-Jun-20	ADF/Loan	7.6	0.0	Aug-19	No disb.for 2 Years/Problematic Project
		SKILLS DEVELOPMENT FOR EMPLOYABILITY AND ENTREPRENEURSHIP- SDEE	3-Mar-15	4.6	6-May-15	2.1	5-Jun-15	22-Sep-15	29-Mar-16	13.1	30-Jun-20	ADF/Grant	5.9	18.3		Slow procurement/ Problematic Project
Econ/ Fin. Govern - 17%	P-ER-KF0-003	PFM AND STATISTICS TECHNICAL ASSISTANCE AND CAP. BUILD.- PFM-	4-Jul-16	3.3	10-Oct-16	3.3	10-Oct-16	25-Nov-16	20-Dec-16	5.6	31-Dec-20	TSF/Grant	4.5	20.1	Aug-19	Slow Disbursement
	P-ER-K00-002	STRENGTHENING TAX ADMINISTRATION PROJECT (ESTAP)	19-Jun-19	0.28	20-Aug-19	2.1	20-Aug-19	20-Aug-19			31-Dec-22	TSF/Grant	2.0	0.0	Not Yet	Satisfactory
Water& Sanit. - 3%	P-ER-EAZ-003	GROUNDWATER ASSESSMENT, AQUIFER MAPPING AND WELL DEVELOPMENT- GAAMWD	18-Nov-16	2.9	3-Apr-17	4.4	4-Mar-17	9-May-17	20-Jul-17	8.1	31-Aug-19	PPF/Grant	0.5	2.1	Oct-18	Slow Disbursement
	P-ER-EAZ-006	SUPPLEMENTARY FINANCING - ERITREA GROUNDWATER ASSESSMENT, AQ	26-Sep-19	0.01									0.5	0.0	Not Yet	Satisfactory
Total/ Average				3.1		3.3				12.2			37.8	17.4%		40% flagged red

Appendix 3: Map of Project Area



Appendix 4: Project Fragility and Resilience Analysis

This concise Project Fragility and Resilience Analysis for the Eritrea: ENABLE Youth Project builds on the *Eritrea: Assessment for Building Resilience for Sustainable Development* from 2015. It also draws upon the latest information gathered throughout the *Country Resilience and Fragility Assessment (CRFA)* exercise, which is complementary to the *Country Policy and Institutional Assessment (CPIA)*. Whilst the CRFA is a continuous process of enhanced data collection and quantification, and hence iterated over time to reflect the latest developments, the initial findings across the 7 dimensions of Pressures and Capacities were valuable for the in-depth assessment of economic, social, political, environmental/climate change and regional drivers of fragility and measures of resilience for prevention, adaptation and mitigation.

The *Country Resilience and Fragility Assessment (CRFA)* highlights the capacities and pressures across the following 7 dimensions: Inclusive Politics, Security, Justice, Economic and Social Inclusiveness, Social Cohesion, Regional Spillover Effects and Climate/Environmental Impacts.

Eritrea's has experienced positive economic growth over the last three years due to rising foreign investments in the mining sector and adoption of expenditure switching and growth enhancing policies. However, the Government's external fiscal environment continues to be unfavorable due to ongoing UN Security Council sanctions and outstanding border issues with neighbors. As a result, growth, while present, is constrained and has yet to translate to reduction in poverty and job creation particularly for the youth.

Limited economic diversification characterizes the Eritrean economy. Eritrea's dependence on mining and agriculture reflects its narrow economic base and consequent vulnerability to adverse external and environmental shocks. The contribution of the agricultural sector to the economy is relatively small (estimated at 17% in 2014) and has been declining in recent years while the industrial sector (mainly textile and beverages) has remained low at 6.0%.

The Eritrean Population Health Survey (EPHS) (2010) also reveals inadequacies in that access to improved water source stood at only 58% and available water resources barely meet 15% of the population's requirements. Lack of adequate water resources is a key constraining factor on Agriculture, a key sector in the Eritrean economy. In the energy sector 88MW of electricity is generated from diesel/heavy oil fired plants. The share of biomass in the total final energy consumption was estimated at 73% and primary energy intensity at only 12.1%. The cost of diesel power generators impacts businesses and the high cost of energy impede private sector development and national connectivity. The direct and indirect effects of these problems are low investment productivity and economic growth.

The lack of basic national socio-economic statistics is a major constraint on macroeconomic management, policy making and advisory in Eritrea. No census has been carried out in Eritrea to date and official statistics on the prevalence of poverty in the country are limited.

Lack of official statistics makes it difficult to estimate the severity of Eritrea's food insecurity. It is estimated that 65% of the population lives in rural areas and 80% depend on subsistence agriculture for their livelihoods. The agricultural sector, including livestock and fisheries, accounts for only one-fifth of the gross domestic product (GDP). The sector depends mainly on rain, with less than 10 percent of the arable land currently irrigated. Consequently, interventions to boost productivity for inclusive and sustainable growth are crucial.

Like other countries in the Horn of Africa region, Eritrea's population is vulnerable to shocks from environmental degradation, harsh climate, and food insecurity. The region faces significant climatic

variation and the frequency and severity of drought are likely to increase as a result of climate change, exacerbating such factors as poverty, degraded ecosystems, uncoordinated water resource management, conflict, and governance. The region has suffered significant droughts in 2003, 2008, and 2011, with adverse impacts on food security and nutrition levels which has in turn increased children malnutrition, estimated at 50% (EPHS, 2010).

Indeed, Eritrea has been identified as being among the countries at highest climate-related risks, particularly because of the impacts of droughts. About 65% of Eritrea's population is at risk of shocks from environmental degradation, a harsh climate, and food insufficiency. The chances of drought occurrence have increased from once in every 6-8 years to once in every 2-3 years, according to the project data on drought resilience and sustainable livelihoods 2014-2020.

AfDB is supporting the GoSE in its efforts to prevent and remedy the above. Recognizing the recent, positive developments between Eritrea and neighboring countries, enhanced stability can pave the way for increased regional integration benefits. At the project-level, the design and implementation of the ENABLE Youth project with its components (Component 1: Enabling Environment for Youth Empowerment in Agribusiness; Component 2: Entrepreneurship and agribusiness incubation and Component 3: Financing Youth Agribusinesses) specifically target interventions to enhance resilience and inclusiveness, particularly for the most vulnerable and marginalized members of society, including young women and men.

APPENDIX 5: Eritrea's Current Debt Sustainability Analysis

Eritrea is in a precarious debt situation, which has evolved overtime. The country's gross government debt to GDP ratio declined from 288.1% in 2017 to 267.0% in 2018 and it is estimated to further decline to 248.0% in 2019. The bulk of this debt is domestic debt while external debt was at about 64.4% GDP in 2018. Eritrea has one of the highest debt ratios on the African continent. According to the available information (IMF, Article IV, consultations report published on 22 July 2019), Eritrea is at high risk of debt distress.

The accumulation of high public debt is a result of years of United Nations sanctions and conflict, which culminated into high deficits, which were mainly financed through domestic borrowing. Overtime, the capacity of the country to service the huge public debt got demised as this was now in competition with spending on the Sustainable development goals (SDGs) on health and education. The Government accorded more priority to SDGs and progress has been remarkable. Despite poising fiscal surpluses in the later years 2016-2018 (at annual average of 6.9 % of GDP), the bulk of the surpluses (savings) have been used to meet public debt servicing commitments.

The country's debt burden remains huge, which has reduced its carrying capacity for new non-concessional debts. The debt service as a percent of exports increased from 6.3 in 2017 to 6.8 in 2018 and it is expected to further increase to 8.3 in 2019. Unless this increasing debt burden is eased through concessional financing, the country risks reversing the gains made on the health and education SDGs, which might compound the existing vulnerability emanating from high unemployment and under employment in particular of the youth, and climate change which the Bank has strived to reverse using its accumulated support to Eritrea.

In view of the foregoing vulnerabilities, which might be compounded by the debt stress situation, the Bank should use the existing ADF 14 guidelines and framework to allow Eritrea access the financing mix, which is grant only. This request is similar to board approvals made for Ethiopia and Djibouti, both in a similar debt distress situation like Eritrea.

In spite of the economy's estimated growth of 3.1 % in 2019, the country is already at high risk of debt distress (as indicated above) and the heavy burden of debt cannot allow the country to fully commit the required 10% in counterpart funding to cover the project local cost. The weakening revenue capacity is also affecting domestic resource mobilization efforts. The revenue to GDP ratio is estimated at 33.5 % of GDP in 2019 (representing a drop of 4.2 % of GDP compared to its level in 2018). Since the agreement in July 2018, domestic resource mobilization has been affected by contraband trade across the country's borders, in particular with Ethiopia which has resulted into huge revenue losses.

In the face of the huge debt and its attendant servicing burden, the authorities are rationalizing spending towards protecting the achievements in SDGs on Health and Education while using the accumulated budget surpluses (savings) towards clearing their existing public debt obligations- domestic and external. The country's record of accomplishment on public spending policy- its timely provision of counterpart on ongoing projects indicates that the authorities had a strong commitment to funding the development programs before the drop in domestic revenues and reaching unsustainable debt levels. In the Aftermath, development partners have remained an important source of financing due to current resource constraints and debt burden. Noteworthy that the Bank's new assistance will have minimal direct impact on fiscal and debt sustainability given that they will be provided as grants, meaning the Bank can scale up its share of the costs up to a maximum of 100% subject to government restrictions on payment of certain local costs.

BOARDS OF DIRECTORS

Resolution N° B/ER/2019/102 - F/ER/2019/114

Adopted by the Boards of Directors of the Bank and the Fund on a lapse-of-time basis, on 2/12/2019

**Grant to the State of Eritrea from the resources of the Transition Support Facility
to finance part of the costs of the ENABLE Youth Eritrea**

THE BOARDS OF DIRECTORS,

HAVING REGARD to: (i) Articles 1, 2, 32 and 37 of the Agreement Establishing the African Development Bank (the “Bank”); (ii) Articles 1, 2, 26 and 30 of the Agreement Establishing the African Development Fund (the “Fund” or “ADF”); (iii) the Report on the Fourteenth General Replenishment of the Resources of the Fund (“ADF-14”); (iv) the Operational Guidelines for the Implementation of the Strategy for addressing Fragility and building Resilience in Africa and for the Transition Support Facility (the “TSF Operational Guidelines”); and (v) the appraisal report contained in Document ADB/BD/WP/2019/275/Approval - ADF/BD/WP/2019/187/Approval (the “Appraisal Report”);

RECALLING:

- (i) Resolution N° B/BD/2008/05 - F/BD/2008/03 approved by these Boards on 28 March 2008 establishing the Fragile States Facility;
- (ii) Document ADB/BD/WP/2014/46/Rev.2 - ADF/BD/WP/2014/30/Rev.2 entitled “Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014 – 2019”; and
- (iii) Document ADB/BD/WP/2017/175 - ADF/BD/WP/2017/123 entitled “Fourth Cycle Assessment of Eligibility for Countries to the Transition Support Facility (TSF) Supplemental Support Funding (Pillar I) Resources” and the corrigendum thereto, which confirmed, *inter alia*, the eligibility of the State of Eritrea to receive financing from the TSF Supplemental Support Window (Pillar I);

DECIDE as follows:

1. To award to the State of Eritrea (the “Recipient”), from the resources of the TSF Supplemental Support Window (Pillar I), a grant of an amount not exceeding the equivalent of Twelve Million Units of Account (UA 12,000,000) (the “Grant”) to finance part of the costs of the ENABLE Youth Eritrea;
2. To authorize the President to conclude a protocol of agreement amongst the Bank, the Fund and the Recipient (the “Protocol of Agreement”), on the terms and conditions specified in the General Conditions Applicable to Protocols of Agreement for Grants of the African Development Fund, the TSF Operational Guidelines and the Appraisal Report;
3. The President may cancel the Grant if the Protocol of Agreement is not signed within ninety (90) days from the date of approval of the Grant by these Boards; and

This Resolution shall become effective on the date above-mentioned