AFRICAN DEVELOPMENT FUND

PROJECT: PRODUCTIVITY ENHANCEMENT SUPPORT TO THE INTEGRATED AGRO-INDUSTRIAL PARKS & YOUTH EMPLOYMENT (PESAPYE)

P-ET-AA0-018

COUNTRY: ETHIOPIA

PROJECT APPRAISAL REPORT

Date: June 2021

APPRAISAL TEAM	Team Leader:	Mr. Duncan MWESIGE, Chief Agricultural Economist	AHFR.2	Ext: 8373
	Co-Team Leader:	Mr. Edson MPYISI, Chief Financial Economist	AHAI.1	Ext: 8379
	Team Members:	Ms. Grace V. OBEDA, Principal Youth Employ. Officer	AHHD.0	Ext: 4540
		Ms. Olakemi SALAU, Regional Principal Legal Counsel	PGCL.1	Ext: 5150
		Mr. Mekonnen LOULSEGED, Snr Water Res. Engineer	RGGE.2	Ext: 8334
		Mr. Melaku TADESSE, Snr Financial Mgt Officer	COET	Ext: 7261
		Ms. Annah RUTEBUKA, Chief Social Safeguard Office,	RDGE4	Ext 8339
		Mr. Julius KARUGA, Principal Investment Officer	RGDE3	Ext: 8355
		Ms. Gloria MUHORO, Gender Consultant	AHGC1	Ext: 5197
		Mr. Hailemeriam HAILEMESKEL, Agric Consultant	COET	Ext: 7280
		Mr. Emmanuel CHISESA, Snr Procurement Op. Officer	COET	Ext: 7267
		Mr. Robert MUGABE, Climate Change Consultant	RDGE.1	Ext: 8122
		Mr. Marcel MAGLO, Principal Inst. Capacity Dev. Officer	RDTS	Ext: 5254
		Mr. Jerome BERNDT, Snr Fragility & Resilience Officer	RDTS	Ext: 4355
	Sector Manager:	Mr. Olagoke OLADAPO	AHFR.2	Ext: 3494
	Sector Manager	Mr. Damian IHEDIOHA	AHAI.1	Ext. 2212
	Sector Manager:	Mr. Joseph COOMPSON	RDGE.2	Ext: 8415
	JfYA Coordinator:	Mr. Jeffrey TAPERA MUZIRA	AHHD.0	Ext: 4555
	Sector Director:	Ms. Atsuko TODA	AHFR	Ext: 4029
	Sector Director	Mr. Martin FREGENE	AHAI	Ext: 5586
	Sector Director:	Mr. Yero BALDEH	RDTS	Ext: 4021
	Deputy DG	Mr. Abdul Kamara	RDGE	Ext: 7250
	Director General:	Ms. Nnenna NWAFUBO	RDGE	Ext: 8232

Peer Reviewers	Mr. Damian IHEDIOHA, Division Manager	AHAI.1	Ext 2212
	Mr. Jonas CHIANU, Chief Agricultural Economist	AHAI.2	Ext 3519
	Mr. Tabi KARIKARI, Senior Agricultural and NRM Officer	COGH	Ext 6179
	Ms. Rosemond OFFEI-AWUKU, Chief Development Economist	AHHD.0	Ext 2576
	Ms. Monde NYAMBE, Principal PPP Investment Officer	AHFR.2	Ext 5791

AFRICAN DEVELOPMENT FUND

ETHIOPIA

PRODUCTIVITY ENHANCEMENT SUPPORT TO THE INTEGRATED AGRO-INDUSTRIAL PARKS & YOUTH EMPLOYMENT (PESAPYE)

REVISED VERSION

APPRAISAL REPORT

RDGE/AHFR/AHAI

June 2021

Table of Contents

CURRENCY EQUIVALENTS

As of November 2020

Currency = Ethiopian Birr (ETB)

Monetary unit

1 USD	=	ETB 37.65
1 UA	=	ETB 53.14
1 UA	=	USD 1.41

FISCAL YEAR

July 8 – July 7

WEIGHTS AND MEASURES

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS

AC	Aggregation Centre
AfDB	African Development Bank
ADF	African Development Fund
AISS	Agro-Industry Sector Strategy
BADEA	Arab Bank for Economic Development in Africa
BSTP	Basic Services Transformation Programme
CSP	Country Strategy Paper
DAG	Development Assistance Group
DFID	Department for International Development
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTVETA	Federal TVET Agency
FTVETI	Federal TVET Institute
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GPEDC	Global Partnership for Effective Development Cooperation
GTP	Growth and Transformation Plan
HH	House Holds
HDI	Human Development Index
IAIP	Integrated Agro-Industrial Park
IAIPDC	Integrated Agro-Industrial Park Development Corporation
IDC	Irrigation Development Commission
IDS	Industrial Development Strategy
JICA	Japanese International Cooperation Agency
Korea Exim	Korea Export-Import Bank
M&E	Monitoring and Evaluation
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoIT	Ministry of Industry and Trade
MoE	Ministry of Environment
MoWIE	Ministry of Water, Irrigation and Energy
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PCN	Project Concept Note
PHLM	Post-harvest Loss Management
PMU	Project Implementation Unit
REDFS-SWG	Rural Economic Development and Food Security Sector Working Group
RIPDC	Regional Industrial Park Development Corporation
RTC	Rural Transformation Centre
SAPZ	Special Agro-industrial Processing Zones
SME	Small and Medium Enterprises
SNNPR	Southern Nations, Nationalities and People's Region
TA	Technical Assistance
TAAT	Technologies for African Agricultural Transformation
TVET	Technical and Vocational Education and Training
UA	Unit of Account
WUA	Water Users' Association
UNIDO	United Nations Industrial Development Organization
VCD	Value Chain Development

Grant Information

Client information

RECIPIENT: Federal Democratic Republic of Ethiopia

EXECUTING AGENCY: Ministry of Water, Irrigation and Energy (MOWIE)

Financing plan

Source	Amount (UA million)	Amount (USD Million)	Instrument
ADF	33.25	46.88	Grant
BADEA	21.72	30.00	Ordinary Loan
BADEA	14.46	20.00	Concessional Loan
GoE	3.72	5.25	Counterpart Contribution
TOTAL COST	**72.26**	**101.88**	

ADF's key financing information

Grant currency	UA
FIRR (base case)	28%
EIRR (base case)	31%, NPV, ETB 2.99 billion at 12%

**if applicable*

Timeframe - Main Milestones (expected)

Concept Note approval	September 2019
Project Board Consideration	July 2021
Effectiveness	September 2021
Last Disbursement	June 2026
Completion	December 2026

Project Summary

Project Overview: The Productivity Enhancement Support for the Integrated Agro-Industrial Parks and Youth Employment (PESAPYE) project will contribute to poverty reduction, economic growth, greater resilience and social cohesion in Ethiopia through enhanced productivity and commercialization of agriculture. The project development objective is to increase agricultural production by developing irrigation and watershed management around the Integrated Agro-Industrial Parks (IAIPs) and to empower graduate youth agripreneurs to establish agro-related commercial enterprises. Implementation of watershed management activities will contribute to the reduction in environmental degradation, promote the adoption of sustainable land and water management practices that complement the government's effort in promoting efficiency in the use of natural resources, especially water. This is expected, overall, to mitigate some of the impacts of climate change, increase land productivity so that sustainable development can be secured. The project has multiplier effects for the economy through the supply of raw materials for the agro-industrial parks and thereby enhance diversification of the export base to generate much-needed foreign exchange. The project will also contribute to cushioning the medium-term effects of COVID-19, in particular through employment and support for youth enterprises in the rural economy, and will complement the Bank's ongoing Policy Based Operation project to support implementation of the Ethiopia Covid-19 Crisis Response plans.

The Project activities include capacity development and access to finance to improve the modernization, transformation, and commercialization of agriculture as well as to introduce profit-oriented business management practices. The PESAPYE Project is the second phase of the Bank-financed IAIP-Support Project (IAIP-SP) that was approved in 2018, focusing on development of essential complementary parks infrastructure and capacity development around the IAIPs.

The project is co-financed in parallel by the Bank and the Arab Bank for Economic Development in Africa (BADEA). The total cost of PESAPYE is UA 72.26 million with the Bank contributing UA 33.25 million to support three irrigation schemes and youth agripreneur activities and BADEA contributing UA 35.29 million for two irrigation schemes and some youth agripreneur activities. The Government of Ethiopia (GoE) will contribute UA 3.72 million as counterpart contribution.

The Project objectives will be achieved through the development of a total of 12,607 ha of irrigated land, comprising five schemes. The Bank financing will cover 3 schemes comprised of 4,607 ha: the Taba Scheme (1,200 ha) in Amhara Region, Belchet Scheme (1,425 ha) in Amhara Region and Gidabo Oromia Scheme (1,982 ha) in Oromia Region. BADEA financing will cover two schemes: Gidabo in Sidama region (formerly SNNP) Scheme (3,000 ha) in Sidama Region and Tekeze Humera Scheme (5,000 ha) in Tigray Region. The key target commodities include wheat, sorghum, beans, cotton, horticultural crops, livestock, barley, tef, and sesame. The project is building on the preliminary work of the Bank funded Technologies for African Agriculture Transformation (TAAT) project in Ethiopia as four of these commodities (wheat, sorghum, beans, and horticulture) have existing activities within their respective TAAT compacts.

The Project will support the implementation of the Graduate Youth Irrigation Development Program to establish viable enterprises that will create employment opportunities for youth. The Government has proposed to allocate 50 ha of land per group of 12 graduate youth agripreneurs so that they can establish profitable small and medium enterprises (SMEs) that will attract support and funding by the financial institutions. The youth agripreneurs in each group/enterprise will have a mix of expertise including engineering, agronomy, social development, human resources, finance, and accounting, etc. needed to run successful commercial enterprises. About 3,000 youth will receive both agronomic/agriculture and business development training along with capacity development and will be assisted to establish 250 enterprises (12 youth establishing an enterprise). A business service provider will be recruited to provide advisory services to the agripreneurs for a period of 3 years. In addition, the Project will provide affordable financing for these youth-led start-ups through an on-lending mechanism managed by the Development Bank of Ethiopia (DBE). An online marketing platform will also be developed for digital marketing and payments.

The expected outputs from the Project include: (i) development of irrigation infrastructure in the five irrigation schemes; (ii) establishment and strengthening of water users' associations; (iii) protecting the water-shed areas around the irrigation schemes; (iv) training farmers and the youth agripreneurs on soil and water conservation practices and agricultural production, value addition and marketing; (v) establishment of youth-led enterprises and SMEs; (vi) training the youth SMEs in agri-food value chain business practices; and (vii) supporting the established youth SMEs to access credit. The Project will be implemented over a five-year period (2021-2026). The Ministry of Water, Irrigation and Energy (MoWIE), the project executing agency, will establish a dedicated Project Implementation Unit (PMU) within the Irrigation Development Commission (IDC) and PMUs in each of the four project regions to implement the project. The Environmental and Social Safeguards expert in the PMU will also support the inclusiveness approach to prevent and reduce legacy grievances and strengthen social cohesion through the project's activities. In addition, specific capacity development activities for the PMU members and the implementation ecosystem on peacebuilding and social cohesion will further enhance conflict sensitivity and the do no harm principle application during implementation.

Beneficiaries: The target beneficiaries are farmers and youth agripreneurs in the project catchment areas and around the four IAIPs. According to the Feasibility Study, the socio-economic gender disaggregated profile indicated that an estimated 30,000 households (HH) from the irrigation schemes will benefit directly among which 3,000 will be educated youth farmers. The estimated direct beneficiaries per irrigation site are: 2,000 households (HHs) in Awobel/Dejene Woredas in Amhara Regional State; 16,000 HHs in the Gidabo scheme for both Oromia and Sidama regions and 12,000 HHs in the Tekeze Humera Scheme. The project will support about 3,000 graduate youth agripreneurs who will further provide employment to about 20,000 non-graduate youth. The total number of jobs expected from the Project is approximately 25,000 direct and 75,000 indirect jobs including in the IAIPs and 50% women are being purposively targeted. This directly contributes to efforts to prevent radicalization and reduce marginalization via decent jobs and enhanced livelihoods. This reinforces hope and trust in public administration, thereby also strengthening social cohesion.

Needs Assessment: Ethiopia's economy is predominantly agriculture-based, which directly supports 85 per cent of the population and constitutes 46 per cent of gross domestic product (GDP) and 90 per cent of export value. However, it is plagued by poor infrastructure, poor agricultural practices, subsistence production systems and commodity-based exports. The sector requires substantial transformation to sustain economic growth, reduce poverty and ensure food and nutrition security. Strong domestic agro-industrialisation will drive a demand-led agriculture that is required to transform the traditional supply-led subsistence agriculture, reduce dependence on food imports and sustain job creation in rural and urban areas. To this end, the GoE established four (4) pilot integrated agro-industrial parks across several regions of the country. The objective of setting up IAIPs is to create an alternative market for agricultural commodities by taking advantage of opportunities for bulk purchasing, reduced post-harvest losses, and selling to agro-industries. The country's objective is to move away from the export of raw materials and commodities to export of processed/finished products to create decent jobs and earn additional income from the sector. The demand/pull effect created by this strategy, necessitated the need for the Bank to support the productivity enhancement in areas around the 4 IAIPs by developing irrigation infrastructure and providing access to productive factors and entrepreneurial skills for the graduate unemployed youths.

Bank's Value Added: The Bank's comparative advantage and added value in supporting the IAIPs in Ethiopia is derived from its accumulated experience and notable leadership in financing foundational infrastructure (roads, energy, water treatment plants, agri-industrialization, etc.) in Ethiopia and numerous other African countries. The Bank's leadership did not only encourage the GoE to strengthen its focus on agro-industrialization but has also been able to rally significant co-financing from other donors. This includes an amount of USD 50 million and EUR 10.1 million, respectively, from Korea Exim Bank and the EU for IAIP-SP (approved in 2018) and USD 50 million from BADEA. This leadership is consistent with the targets of Feed Africa Strategy and its new comprehensive approach to agro-industrialization, i.e. the Special Agro-industrial Processing Zones (SAPZs), which is modelled in the Ethiopian IAIPs.

Knowledge Management: The outcomes and impacts of the project will be closely monitored and disseminated with the lessons learned for future projects design both within Ethiopia and elsewhere in the continent. The documented experience will provide the Bank with the requisite knowledge to meet its objectives under the Feed Africa Strategy, the Jobs for Youth in Africa Strategy and the Bank's Strategy for Addressing Fragility and Resilience, among others.

RESULTS FRAMEWORK

A PROJECT INFORMATION

PROJECT NAME AND SAP CODE: **Ethiopia: Productivity Enhancement Support for the Integrated Agro-Industrial Parks & Youth Employment (PESAPYE), P-ET-AA0-018**	COUNTRY/REGION: Ethiopia/Eastern Africa

PROJECT DEVELOPMENT OBJECTIVE: **To increase agricultural production by developing irrigation and watershed management around the Integrated Agro-Industrial Parks (IAIPs) and to empower graduate youth agripreneurs to establish agro-related commercial enterprises, thereby advancing social cohesion.**

ALIGNMENT INDICATOR (S): **No. of additional farmers using improved inputs, including irrigation, fertilizer, and seed**

B RESULTS MATRIX

RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF/ADOA INDICATOR	UNIT OF MEASUREMENT	BASELINE (2021)	TARGET AT COMPLETION (2026)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Jobs created for youth through commercial agriculture					
OUTCOME INDICATOR 1.1: Total number of jobs created as a result of establishment of the irrigation schemes (disaggregated by age group and gender 50% women)	☐	No. of jobs	0	100,000 W :50,000 Y :50,000	Dedicated labour force surveys
OUTCOME STATEMENT 2: Increased productivity in the irrigation schemes through modern agricultural technologies					
OUTCOME INDICATOR 2.1: Number of youth SMEs in the established irrigation schemes supplying raw materials to the IAIPs/RTCs (aggregate based on data per region), (membership disaggregated by gender and targeting at least 50% women representation).	☐	No. of Youth SMEs	0	250	Regional water and agricultural bureaus/ Project progress implementation documents
OUTPUT STATEMENT 1: Component 1: Enhance Agricultural Productivity with Irrigation Schemes in proximity to the IAIPs					
OUTPUT INDICATOR 1.1 Area under Irrigation Infrastructure	☐	Hectares (Ha)	0	12,600	Project Progress reports and implementation documents
OUTPUT INDICATOR 1.2 Increase in productivity of major value chain commodities	☐	Tons/hectare	Wheat – 3.4 Teff – 1.9 Barley – 2.5 Maize (green) – 4.9 Beans – 2.5 Lentils – 1.6 Horticultural crops -	Wheat – 5.5 Teff – 2.4 Barley – 3.3 Maize (green) – 7.0 Beans – 3.5 Lentils – 2.0 Horticultural crops - (30-60% increase)	Project Progress report and implementation documents
OUTPUT INDICATOR 1.3 Beneficiaries' Capacities	☐	No. of WUAs established and	0	5	Project Progress report and

developed through establishment of WUAs (disaggregated by gender and targeting at least 40% women's representation)		strengthened			implementation documents
OUTPUT INDICATOR 1.4 Improved management of watershed areas	☐	Hectares of water shed protected (ha)	0	100,000	Project Progress report and implementation documents
OUTPUT STATEMENT 2: Component 2 – Support the development of Youth[1] Enterprises in the developed Irrigation Schemes and in the IAIPs					
OUTPUT INDICATOR 2.1 Successful and profitable youth-led agribusinesses established to support commercial agriculture (50% women led)	☐	a) No. of youths trained on agri-food value chain business practices	0	3,000	Project progress implementation documents
	☐	b) Hectares of irrigated land being farmed by youth agripreneurs (ha)	0	11,400	Project progress implementation documents
OUTPUT STATEMENT 3: Component 3: Establish a financing scheme to support youth enterprises in the Irrigation schemes & IAIPs					
OUTPUT INDICATOR 3.1. Establish a sustainable credit scheme dedicated to SME and agripreneurship development	☐	a) Youth SMEs in the irrigation schemes accessing finance (disaggregated by gender - targeting 50% women led businesses)	0	250	Project progress implementation documents
	☐	b) Volume of credit (USD) accessed by agripreneurs in the irrigation schemes (disaggregated by gender)	0	6,500,000	Project progress implementation documents
	☐	c) Repayment rate on credit (%)	90[2]	100	Project progress implementation documents
OUTPUT STATEMENT 4 Component 4: Project coordination and management structure established and operational					
OUTPUT INDICATOR 4.1 Support the establishment of structures required for project implementation and coordination.	☐	4.1.1 PMU staffed and equipped (PDU)	0	1	SAP, and Project progress implementation
	☐	4.1.2 Monitoring framework is established and functional for the project	0	1	
	☐	4.1.3 Number of quarterly implementation progress reports prepared	0	20	

[1] The African Youth Charter defines **youth** as any individual between 15-35 years of age.
[2] This is the repayment rate provided by the Development Bank of Ethiopia for lending to SMEs throughout the country.

	☐	4.1.4 Number of audit reports prepared and validated	0	5	documents

Components	Inputs	Project costs per component:
Component 1: Enhance Agricultural Productivity with Irrigation Schemes in proximity to the RTCs and IAIPs in Ethiopia Component 2: Support the development of Youth Agripreneurship and farmers cooperatives in developed Irrigation Schemes and SMEs in the IAIPs Component 3: Institutionalize an innovative financing scheme to support youth agripreneurs and farmer cooperatives in the irrigation facilities and the SME's in the IAIPs Component 4: Project Coordination and Management	Total Project Cost: UA 72.26 M Source of funding: ADF Grant: UA 33.25 M GoE Co-financing: UA 3.72 M BADEA : UA 35.29 M	Component 1 : UA 57.92 M Component 2 : UA 5.21 M Component 3 : UA 4.71 M Component 4 : UA 4.42 M

Productivity Enhancement Support for the Integrated Agro-Industrial Parks & Youth Employment
PROJECT IMPLEMENTATION SCHEDULE

Year	2021		2022				2023				2024				2025				2026	
Quarter	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
Initial Activities																				
Signature of grant agreement and Disbursement effectivness																				
Finalise the setting up Project coordination Offices at EA and 4 Regions (Recruitment and Equipping)																				
Project Launching																				
Component 1: **Enhance Agricultural Productivity with Irrigation Schemes in proximity to the IAIPs in Ethiopia**																				
Recruitment of Supervision Consultant																				
Recruitment of Contractors																				
Construction of the Irrigation Infrastructure																				
Construction of Support Infrastructure and Services																				
Establishment of WUAs and Training of beneficiaries																				
Implementation of Watershed Management Activities																				
Component 2: **Support the development of Youth[3] Enterprises in the developed Irrigation Schemes and in the IAIPs**																				
Profile, select and organize youth agripreneurs and farmer groups and document land use assets within the irrigation schemes																				
Strengthen capacity of youth agripreneurs, farmer groups and SMEs to run profitable agribusiness enterprises																				
Component 3: **Establish a financing scheme to support youth enterprises in the Irrigation schemes & IAIPs**																				
Support the establishment of financing scheme required to support youth enterprises in the Irrigation schemes & IAIPs																				
Project Coordination and Management																				
Community Mobilization and Sensitization																				
Establish the baseline situation																				
Project Management, M&E and communication activities (quarterly reports/disbursement//etc.)																				
Coordinate Financial Management and Annual financial auditing																				
Procurement of Goods/Works/Services																				
Environmental monitoring																				
Mid Term Review																				
Project Final Audit																				
Project Completion report (PCR)																				

[3] The African Youth Charter defines **youth** as any individual between 15-35 years of age.

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE BANK GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED ADF GRANT TO ETHIOPIA FOR THE IMPLEMENTATION OF THE PRODUCTIVITY ENHANCEMENT SUPPORT TO THE INTEGRATED AGRO-INDUSTRIAL PARKS AND YOUTH EMPLOYMENT PROJECT.

Management hereby submits the following report and its recommendation concerning a proposed grant of UA 33.25 million (USD 46.88 million), from the African Development Fund (ADF) performance-based country allocation to the Federal Democratic Republic of Ethiopia to finance activities to support enhanced raw material production and productivity for the Integrated Agro-Industrial Park development and youth employment in Ethiopia.

I – STRATEGIC THRUST & RATIONALE

1.1. Project linkages with country strategy and objectives

1.1.1 Ethiopia recently launched the Ten-Year Development Plan (TYDP 2021-2030) which presents a long-term vision of making Ethiopia an "African Beacon of Prosperity" by creating the necessary and sufficient conditions. The overall development goal is to achieve improved welfare of the society by improving the standard of living and quality of life that are captured in the broader national prosperity vision. The TYDP has ten Strategic Pillars with three that are very relevant to PESPAPYE, including Pillar 2, Economic Productivity and Competitiveness; Pillar 5, Private Sector-led Economic Growth; and Pillar 8, Gender and Social Inclusion (including youth). The TYDP builds on Ethiopia's Agro-Industry Strategy which emphasises the need for competitiveness for its exports, decreasing dependence on imported foods, attracting investments and driving transition from the traditional supply-led subsistence agriculture towards a high tech, safe and demand-led agriculture. The TYDP aims to modernize the agriculture sector by providing quality infrastructure, prioritizing innovative production systems, and creating technological competences, among others.

1.1.2 The Government developed the Ethiopian Agro-Industry Sector Strategy (2009), the Integrated Agro-Industrial Park Policy (2015), a Master Plan for four pilot Integrated Agro-Industrial Parks and established the Integrated Agro-Industrial Park Development Corporation and corresponding regional agencies to coordinate the whole IAIP initiative including coordinating and facilitating private sector investments within the IAIPs. Thus, the Government's ambitious plan of establishing Integrated Agro-Industrial Parks (IAIPs) is anchored on the Agro-Industry Strategy, with emphasis on Rural Transformation Centres (RTCs) and Aggregation Centres to connect with rural farming communities. It also seeks to link crop and livestock production to storage and processing facilities, move farm produce up the agricultural value chain, help transform farming, promote, and attract private sector investments and generate employment.

1.1.3 The Bank's Country Strategy Paper (CSP) for Ethiopia (2016-2020), updated and extended to 2022, focuses on two pillars: (i) infrastructure development, especially energy, transport, water and sanitation, and (ii) promoting economic governance, with particular emphasis on facilitating effective and efficient delivery of basic services at local level and business enabling environment for private sector development. The CSP also mainstreams inclusive growth. At mid-tern review in 2018, the CSP Pillar I, was revised to give a more central role to agricultural infrastructure in line with the country's renewed focus on agro-industrialization. Thus, the proposed project is aligned with Bank's CSP Pillar through infrastructure development to support industrialisation and the establishment of agro-industrial parks and create opportunities for private sector development, promote inclusion, skills development and job creation. This focus aligns the project not only with the Bank's Feed Africa Strategy, the Jobs for Youth in Africa Strategy, the Industrialise Africa Strategy and the Bank's Strategy for Addressing Fragility and Building Resilience in Africa.

1.1.4 The Project will help Ethiopia to grow its agro-industrial base through improved productivity and increased production of high value crops, including export-oriented cash crops. These crops will provide raw materials for the expansion of agro-processing and further enhance value chain development, in line with the IAIP Strategy, which is key for the country's industrialization and enhanced resilience. This goal will be achieved through irrigation expansion and promotion of linkages to agricultural value chains, building institutional capabilities, matched by production opportunities for the youth to engage in agripreneurial activities in agricultural production, processing, marketing and related backward and forward linkages. This will contribute to peacebuilding efforts and to strengthening social cohesion.

1.2. Rationale for Bank's involvement

1.2.1 The development of IAIPs is a key vehicle to achieving Ethiopia's agricultural transformation and industrialization objectives. The IAIPs, however, require a consistent supply of raw materials, in predictable volumes and quality. This demand can only be met by increased productivity to drastically increase the volumes and quality of the required commodities. This creates a strong need to reorient, re-align and improve the existing irrigation schemes, as well as build new complementary ones in high agricultural potential areas in proximity to the IAIPs. Moreover, irrigation schemes will address the chronic challenges of low yields, crop failures and high seasonality that bedevil traditional rain-fed farming and which have been compounded by the changing climate and weather patterns. The Bank's experience implementing the TAAT in supporting African governments and institutions to deploy proven modern food production technologies to millions of farmers to increase productivity will be utilized in this project. TAAT is implementing a Compact in Ethiopia focusing on wheat, sorghum, beans, and livestock – which are target commodities for this project. With this strong focus on long-term growth of the agriculture sector in Ethiopia, the project activities will complement the short-term emergency responses to the COVID-19 crisis, such as provision of food and inputs.

1.2.2 IAIPs represent an opportunity for the Bank to further assist the GoE drive the much-needed transformation from a supply-driven to a demand-driven agriculture, with a reform of all stages of the agricultural value chain, including forward and backward linkages. This reform spans across primary production through various stages of processing and marketing (wholesale and consumer markets), locally, regionally, and globally. If the objectives of the IAIPs are achieved, Ethiopia's agro-industrial sub-sector is projected to grow from 66,000 employees in 2015 to 3.8 million employees by 2025. The IAIPs will therefore account for 85% of total agro-industrial jobs by 2025, implying that 85% of the required labour by 2025 should be a skilled workforce with technical and vocational education. One way to achieve this is by utilizing the irrigable land to support young agricultural graduates as self-employed entrepreneurs. The youth comprise about 76% of the Ethiopian population and nearly 67% live in the rural areas. The project estimates to support approximately 3,000 graduate youth agripreneurs who will further provide employment to approximately 20,000 non-graduate youth.

1.2.3 The Project's support to the development of youth entrepreneurs and access to finance fits very well within the GoE's mega plan to create 14 million jobs by 2025 and up to 20 million jobs by 2030, mostly for youth. Much of the labour force remains in rural areas (82% in 2013) and is engaged in agriculture. Furthermore, low incomes, unemployment, underemployment, and poor working conditions are highest amongst young people (15-29). About three million youth enter the labour force every year in Ethiopia, which are part of the Government's job creation target. These job creation targets of the GoE align strongly with the Bank's High 5s seeking to improve the quality of life for the people of Africa. They conform even more strongly to the Bank's Jobs for Youth in African Strategy which seeks to create 25 million jobs for youth in Africa by 2025 while empowering 50 million to access economic opportunities.

1.2.4 The project is also aligned to the ADF-15 Strategic Framework and particularly to Pillar-1 "Quality and Sustainable irrigation infrastructure to support the Feed Africa Agenda" and Pillar 2 "Developing skills and technical capacity for youth employment" and also capitalizes on the Bank's expertise to support RMCs in project design and implementation in complex contexts, including insecure environments.

1.3. Donor coordination

1.3.1 The Development Assistance Group (DAG) is the highest-level forum for partners' coordination in Ethiopia. It is also the framework upon which policy dialogue activities with the Government are undertaken. It consists of over 30 multinational and bilateral Development Partners (DPs) and seeks to enhance the delivery and effectiveness of development assistance. The Bank Group is a core member of the DAG and was co-chair during the period August 2018–August 2019 when it played a lead role in engaging with GoE to deepen economic reforms, and to operationalize the reforms announced by the Prime Minister in early 2018. The Bank further participates in several Thematic and Sector Working Groups (TWGs/ SWGs) including, transport, energy, agriculture, water and sanitation, education, social protection, gender, Public Financial Management (PFM), and private sector development.

1.3.2 The Bank collaborates closely with several DPs in the agriculture sector within the framework of the Rural Economic Development and Food Security (REDFS) SWG. The REDFS Sector Working Group meets quarterly and is responsible for aid coordination and policy dialogue in Ethiopia's agriculture sector. The Bank co-chaired the Pastoral Task Force, under the Livestock and Fisheries Production and Marketing Technical Committee in 2016-2017. Also, DPs including the Bank, are major contributors to the budget of the GoE and in 2019/2020 provided 61.3% of the agriculture sector budget within the federal budget. The main DPs in the agriculture and rural development sector are the Bank, DFID, USAID and the World Bank.

II – PROJECT DESCRIPTION

2.1. Project Goal and Objectives

2.1.1 ***Project development goal*****:** The goal of the Project is to contribute to poverty reduction, economic growth and strengthened social cohesion in Ethiopia through enhanced productivity and commercialization of agriculture, focusing on the four Integrated Agro-Industrial Parks (IAIPs) areas; in Bure (Amhara Region), Bulbula (Oromia Region), Yirgalem (the SidamaRegion), and

Baeker (Tigray Region) – see map of Ethiopia in annex IV showing the irrigation schemes with respect to the four IAIPs.

2.1.2 ***The project objective*** is to increase agricultural production by developing irrigation and water management infrastructure in the Rural Transformation Centres (RTCs) of the selected IAIPs. The Project will develop the capacity of and empower graduate youth agripreneurs to set-up commercial agro-enterprises and provide them access to finance to spearhead the transformation and commercialization of profit-oriented agribusiness enterprises. This contributes to enhanced socio-economic inclusiveness and resilience. The Project will also complement the Bank's ongoing IAIP-Support Project (IAIP-SP) which was approved in 2018, focusing on essential agro-park infrastructure (waste-water treatment plants, rural roads, and markets) and capacity development around the IAIPs. The PESAPYE is complementing the IAIP-SP by establishing irrigation schemes and providing farmers with modern agricultural technologies through the TAAT initiative to improve agricultural productivity and production and eventually provide raw materials for agro-processing in the IAIPs.

Project Description

2.1.3 The proposed Project focuses on supporting the 4 IAIPs and the associated Rural Transformation Centres (RTCs), currently being developed by the GoE with support from the Bank and other bilateral and multinational partners. The Project will develop and rehabilitate 5 irrigation schemes in selected communities in proximity to the existing 4 IAIPs and their associated rural transformation centres. The aim is to boost productivity of the selected commodities to guarantee consistent and high-quality supply of agricultural raw materials to the operators in the IAIPs.

2.1.4 Based on different agro-ecologies around the parks, the project will boost the productivity and production of key target commodities including wheat, cotton, sorghum, beans, horticultural crops, livestock, barley, tef, and sesame. The improved, modern and climate smart varieties of these crops and breeds of livestock (adapted to the agro-ecologies around the parks), will be made available through collaboration with the Bank supported TAAT project. The four focus TAAT commodities are wheat, sorghum, beans, and livestock. The relevant TAAT Compacts, working with their partners in Ethiopia, will also backstop PESAPYE including training on Good Agricultural Practices (GAPs), provision of Technical Assistance (TA) and advisory services, among others. The aim is to ensure that TAAT Compacts contribute significantly to increased productivity and production, through availing and assisting with the deployment of proven and modern agricultural technologies. A key contribution of TAAT compacts will be to ensure supply of locally adapted and high yielding certified seeds to targeted farmers.

2.1.5 The Project will develop a total of 12,607 ha of irrigated land on five selected schemes in the four regions. The Bank financing will cover 4,607 ha in three schemes in the Amhara and Oromo regions, while the BADEA financing will cover 8,000 ha in Sidama and Tigray regions. The Bank financing only covers 3.4% of activities/resources allocated to Tigray by the project (i.e. entire project budget in Tigray) and only 2.6% of the Bank's ADF contribution.

2.1.6 The Project will also support the Graduate Youth Irrigation Development Program under the MOWIE to establish viable enterprises that will create employment opportunities for the youth. About 3,000 graduate youth will receive both agronomic and business development training and capacity development to manage farm enterprises in groups of 12 youths per enterprise. A Business Development Service Provider will be recruited to develop competitive selection criteria for the youth participants. Each group of youth agripreneurs will comprise individuals with a skill-set mix that includes water/mechanical engineering, agronomists, social expertise, human resources expertise, finance, and accounting expertise, among others, needed to run successful commercial enterprises. Through the project, the government will also provide agricultural machinery and equipment (tractors, irrigation kits, agro-processing equipment, etc.) for mechanization training and demonstration purposes in each scheme. The equipment will be owned by the regional water and irrigation bureaux in each of the irrigation schemes and will be available for renting by the youth enterprises. With a project target of 250 youth-led SMEs, the Government will allocate 50 ha of land per group of 12 graduate youth agripreneurs, in a total command area of 11,400 ha for the youth agripreneurs (enterprises will focus on various segments of the agricultural value chain). The Project will support the youth to establish corporate Small and Medium Enterprises (SMEs) that can be recognized by the financial institutions and will provide affordable financing for the SMEs through an on-lending mechanism managed by the Development Bank of Ethiopia (DBE). The Business Development Service provider will support the agripreneurs for a period of 3 years and an online marketing platform will also be developed for digital marketing and payments.

Project Components

2.1.7 The Project will comprise four (4) components namely: (i) Agricultural Productivity Enhancement, with irrigation schemes in proximity to the IAIPs; (ii) Development of Youth Agri-preneurship and Farmers Cooperatives, in the developed irrigation schemes and SMEs in the IAIPs; (iii) Establishment of a Financing Scheme, to support youth agripreneurs, in the irrigation facilities and in the IAIPs; and (iv) Project coordination and management as shown in table 1.

Table: 1. Project components/sub-components and activities description

No	Component / Sub-components		Activity Description
1.	**Enhance Agricultural Productivity with irrigation schemes in proximity to the IAIPs**		
	1.1	Irrigation Infrastructure Development	Out of the total of 12,607 ha earmarked for development, the Bank financing will be utilized for the development of 4,607 ha comprising Taba (1,200 ha) in Amhara Region, Belchet (1,425 ha) in Amhara Region and Gidabo Oromia (1,982 ha) in Oromia Region. BADEA financing will cover Gidabo Sidama (3,000 ha) in Sidama Region and Tekeze Humera (5,000 ha) in Tigray Region. The Bank financing only covers 3.4% of activities/resources allocated to Tigray by the project (i.e. entire project budget in Tigray) and only 2.6% of the Bank's ADF contribution. The major activities to be funded under this sub-component include: a) recruitment of the engineering consulting firms to undertake the revision and update of the designs of the various schemes as well as supervise the construction of the irrigation schemes during implementation. In addition, the consulting engineers will ensure compliance with details of the: i) feasibility and technical design of the irrigation schemes and fill missing gaps; (ii) tender documents for the engagement of contractors; and (iii) scheme operation and maintenance (O&M) manual. b) Award of contract to reputable firms to undertake the civil and allied works for the various schemes.

No	Component / Sub-components		Activity Description
			Detailed description of each scheme is provided in C1 of the Technical Annexes.
	1.2	Scheme Management Organization and Capacity Development	Farmers will be supported by organizing them into Water Users' Associations (WUAs) in each of the schemes and encourage them to form marketing cooperatives that will enhance their price bargaining ability for their produce including accessing inputs and other services. In addition to production and economic activities, the WUAs will be used to provide social and health information such as building up the body's immune system to counter diseases such as COVID-19 and to select high nutritional crops for this. Training needs assessment will be conducted during the start-up of the project, training modules will be developed which will be used to train relevant Government staff and farmers. The project will partner with GOs, NGOs and other organizations for the provision of capacity development activities or recruit competitively service providers as appropriate.
	1.3	Watershed management	Within the project watershed areas, many portions remain heavily degraded because of the current agricultural practices. The project will complement ongoing watershed management activities financed by government and other development partners including preparation of catchment management plans, seedling nursing, tree planting, and tools to implement physical restoration activities. In addition, the project will encourage multipurpose use of water, including support for livestock watering for communities around the schemes; fisheries development in water bodies within the project area; and hand dug shallow wells for domestic use to address critical needs of communities and cushion them from climate-induced water stresses. Following an inclusive approach, this will enhance community resilience for the diverse local population.
2.	**Support the development of Youth Enterprises in the developed Irrigation Schemes in the IAIPs**		
		Strengthen capacity of youth agripreneurs and farmer groups to establish and run profitable agribusiness enterprises	The Project will recruit a Business Service Provider (BSP) to strengthen capacity of the youth agripreneurs and farmer groups into functional agribusiness entities with tailored farm-based and business skills training. The training packages will include topics such as: Good Agricultural Practices (GAPs), business planning and management, financial operations, access to markets, logistics and networks, postharvest handling, conformity assessment, quality, safety and standards, connectivity, logistics, contracting, marketing and entrepreneurship as well as soft skills (e.g. working in diverse, multi-cultural settings; reinforce appreciation of diversity, mutual respect and tolerance; awareness and reduction of biases; strengthen social cohesion, etc.). The BPS will support the young graduates to develop bankable business plans that will enable them to access the "start-up" finance that the project is providing through the Development Bank of Ethiopia (DBE). The BSP will support development of commercial linkages from the production sites at farm level to the IAIPs and external markets. The BSP will develop for the project, a real time ICT based platform to connect youth agripreneurs and farmers to essential services like farm inputs, finance, and markets. These youth enterprises are critical in the long-run in terms of increased productivity and agro-processing of food products should there be another COVID-19 like crisis where food imports are restricted. In terms of training, the project will leverage the existing government training facilities and centres including the institutions which are currently supported under Phase 1 of the Industrial Parks project like: Holota Agricultural and agro-processing satellite college (Oromia) and Wukiro Agricultural and Agro-processing Satellite college as well as the TVET institutions (see list in the technical annex).

3.	**Establish a financing scheme to support youth Enterprises in the irrigation schemes and the IAIP's**		
		Institutionalize a sustainable credit scheme in partnership with the Development Bank of Ethiopia (DBE) dedicated to SMEs and agripreneurship development	The project will establish an innovative financing scheme to support youth agripreneurs in the irrigation sites and the IAIPs. The youth agripreneurs will be organized into youth enterprises/SMEs to enhance efficiency at the micro-level. The financing will be channelled to the youth owned SMEs through DBE, which will appraise, disburse and administer sub-loans under the subject scheme through other intermediaries such as microfinance institutions and will keep the interest rates as low as commercially viable for the youth SME enterprises.
4.	**Project coordination and management structure established and operational**		
	4.1	Support the establishment of the project implementation and coordination unit.	Establish a PMU with dedicated staff within IDC at Federal level and PMUs at regional levels for project implementation including monitoring and evaluation, procurement, financial management, progress reporting, environmental and social safeguards (incl. specific focus on social cohesion), communication etc. Most of the gender mainstreaming activities will be implemented in this component. This will also include specific capacity development of PMU members and the implementation ecosystem on conflict sensitivity, peacebuilding and social cohesion to reinforce inclusivity and do no harm principle application.

2.2. *Technical solution retained and other alternatives explored*

The design/model of the IAIPs is based on the emerging Special Agro-industry Processing Zones (SAPZ) approach in Africa; clustering value addition and creating decent employment opportunities in areas of high production of agricultural commodities and enhancing productivity for such commodities. The Bank is a pioneer in the development of the SAPZ concept and rollout of the program as embodied in the Feed Africa Strategy.

Table 2.2: Project Alternatives Considered and Reasons for Rejection

Alternative	**Brief description**	**Reasons for rejection**
Alternative 1	Invest in small scale irrigation infrastructure (200 ha and less) such as smaller water holding structures scattered all over the selected regions.	Small scale irrigation infrastructures (less than 200 ha) is under the responsibility of the local Woredas and not under the federal government and therefore cannot be implemented by the IDC.
Alternative 2	Invest in sprinkler irrigation development by lifting water mechanically to higher ground for crop production.	The analysis of costs for pressurized/sprinkler irrigation for 12-hour irrigation period with night storage development is about 66% more costly compared to the recommended 24-hour surface furrow irrigation. Pumped irrigation schemes are complex and their operation and maintenance and running costs are high and cannot be sustained by smallholder farmers. Further it contributes to carbon emissions.
Alternative 3	Use of the Commercial Bank of Ethiopia (CBE) for the SME financing scheme.	The CBE does not have requisite experience in managing similar schemes as its internal organisational structure on SME finance was only established recently. However, the DBE has a long experience in implementing such initiatives.

2.3. *Project type*

PESAPYE is a public sector standalone investment project implemented through parallel co-financing by the Bank and BADEA. It complements other ongoing agricultural projects and programmes financed by Bank and other development partners and the Government of Ethiopia.

2.4. *Project cost and financing arrangements*

2.4.1 The Project cost, excluding taxes and duties, is estimated at UA 72.26 million, including physical and price contingencies. The costs are composed of UA 51.82 million (71%) in foreign currency and UA 20.44 million (29%) in local currency. The combined physical and price contingencies have been estimated at 12% of the total baseline costs. The tables below provide the summary of the Project costs which are based on analysis of unit prices obtained from records of recent competitive bidding for similar works, goods, and services.

Table 2.3: Estimated Summary Project Costs by Component

	(ETB million)			(UA million)			% Foreign	% Base
Components	**Local**	**Foreign**	**Total**	**Local**	**Foreign**	**Total**	**Exchange**	**Costs**
Enhance Agricultural Productivity with Irrigation Schemes in Proximity to the IAIPs	555.40	2,196.53	2,751.93	10.45	41.33	51.79	80	79
Support the Dev of Youth Enterprises in the Developed Irrigation Schemes and the IAIPs	113.49	131.56	245.05	2.14	2.48	4.61	53	8
Establish a Financing Mechsnism to Support Youth Enterprises	46.15	184.60	230.75	0.87	3.47	4.34	80	7
Project Coordination and Management	161.01	35.43	196.44	3.03	0.67	3.70	18	7
Total Baseline Costs	**876.05**	**2,548.12**	**3,424.18**	**16.49**	**47.95**	**64.44**	74	100
Physical Contingencies	23.83	75.76	99.58	0.45	1.43	1.87	76	3
Price Contingencies	186.19	129.77	315.96	3.50	2.44	5.95	40	9
Total Projec Costs	**1,086.07**	**2,753.65**	**3,839.72**	**20.44**	**51.82**	**72.26**	71	112

2.4.2 The project will be financed by an ADF grant of UA 33.25 million and the Government will contribute UA 3.72 million as counterpart funds towards project activities and BADEA will contribute UA 35.29 million as parallel co-financing. For component 1 on Irrigation Infrastructure Development, the Bank will be responsible for the Taba, Belchet and Gidabo Oromia irrigation schemes while BADEA will be responsible for the Gidabo Sidama and Tekeze Humera Tigray schemes. For component 2 on the Support to the Development of Youth Enterprises, the Bank will be responsible for most of the training and capacity development in all the five irrigation schemes while BADEA will be responsible for the machinery and equipment in all the five schemes. The Bank is solely responsible for component three on Establishing a Financing Scheme to Support youth Enterprises.[4] The Bank financing only covers 3.4% of activities/resources allocated to Tigray by the project (i.e. entire project budget in Tigray) and only 2.6% of the Bank's ADF contribution.

[4] More details on the parallel co-financing are provided in the detailed cost tables in Annex.

Table 2.4: Sources of Financing (UA Million)

	Foreign	Local	Total	Percent
Government of Ethiopia	-0.00	3.72	3.72	5.1
ADF	21.63	11.62	33.25	46.0
BADEA	30.18	5.10	35.29	48.8
Total Project Cost	51.82	20.44	72.26	100.0

2.4.3. The Government contribution is equivalent to 7.1 percent of the total project cost mostly on Project Coordination and Management and on some infrastructure as well. Based on the Bank's policy on Expenditure Eligible for the Bank Group Financing with Respect to Counterpart Financing, the Government's contribution is expected to be at least 10 percent of the project costs. The justification for the Government's contribution of less than 10 percent for this project is presented in Annex VIII.

Table 2.5: Estimated Summary Project Costs by Categories of Expenditures

		(ETB million)			(UA million)		% Foreign	% Base
	Local	**Foreign**	**Total**	**Local**	**Foreign**	**Total**	**Exchange**	**Costs**
I. Investment Costs								
A. Civil Works	436.71	1,084.23	1,520.94	8.22	20.40	28.62	72	43
B. Goods	49.90	1,067.53	1,117.43	0.94	20.09	21.03	94	33
C. Services	242.50	377.01	619.51	4.56	7.09	11.66	60	18
Total Investment Costs	729.11	2,528.77	3,257.88	13.72	47.59	61.31	77	94
II. Recurrent Costs	146.94	19.35	166.29	2.77	0.36	3.13	12	6
Total Baseline Costs	876.05	2,548.12	3,424.18	16.49	47.95	64.44	74	100
Physical Contingencies	23.83	75.76	99.58	0.45	1.43	1.87	76	3
Price Contingencies	186.19	129.77	315.96	3.50	2.44	5.95	40	9
Total Project Costs	**1,086.07**	**2,753.65**	**3,839.72**	**20.44**	**51.82**	**72.26**	71	112

Table 2.6: Expenditure Schedule by Component (UA million)

Components	2021	2022	2023	2024	2025	Total
Enhance Agricultural Productivity with Irrigation Schemes in Proximity to the IAIPs	3.43	9.24	35.00	8.24	2.01	57.92
Support the Dev of Youth Enterprises in the Developed Irrigation Schemes and the IAIPs	-	1.89	1.58	1.61	0.13	5.21
Establish a Financing Mechsnism to Support Youth Enterprises	-	1.37	1.88	1.46	-	4.71
Project Coordination and Management	0.90	0.80	0.84	0.91	0.97	4.42
Total Project Costs	**4.33**	**13.29**	**39.30**	**12.22**	**3.12**	**72.26**

2.5. *Project's target area and population*

2.5.1 Under the entire program (both AfDB and BADEA components), the interventions will cover a total of five (5) irrigation schemes, spread in five districts (Woredas) namely: Awobel/Dejene Woredas in Amhara, Loka/Abaya Woreda of Oromia and SNNP Regions, and Tekeze Humera in Kafta-Humera Woreda of Tigray Region as shown in Annex IV.

2.5.2 Main target beneficiaries are farmers and youths SMEs in the irrigation areas. According to the socio-economic gender disaggregated profile conducted by the feasibility study, a total of about 30,000 households from the irrigation schemes will benefit directly as well as 3,000 educated youth farmers. The direct beneficiaries are 2,000 households (hh) in Awobel/Dejene Woredas in Amhara Regional State; 16,000 hhs in the Gidabo scheme for both Oromia and NNPSNNP regions and 12,000 hhs in the Tekeze Humera Irrigation Scheme.

2.5.3 The project will support 3,000 graduate youth agripreneurs who will further provide employment to approximately 20,000 non graduate youth. All project activities targeting youth will aim for a 50:50 representation between men and women, in line with the Bank's Jobs for Youth in Africa Strategy. The total number of jobs expected from the Project is approximately 25,000 direct and 75,000 indirect jobs including in the IAIPs (50% being women).

2.6. Participatory process for project identification, design, and implementation

2.6.1 The design of the project was largely participatory, involving a series of iterative consultations, cooperation, and coordination with the various stakeholders. The preparation of the Government feasibility study involved a rigorous participatory approach, whereby the relevant stakeholders, particularly authorities of the respective districts and ministries and the direct beneficiary farmers, were fully consulted. Likewise, at preparation and appraisal phases, the Bank together with BADEA team visited all the proposed schemes, in the process of which they interacted with all the stakeholders including women and youth groups. This consultative approach will also continue during implementation of project activities especially between the Executing Agency, project steering committee, Federal and local governments, participating farmer groups, NGOs, the Bank, and other Development Partners.

2.7. ***Bank Group experience, lessons reflected in project design***

2.7.1 As of March 2021, the Bank Group's on-going portfolio in Ethiopia comprised of 19 operations representing a commitment value of UA 1.17 billion (USD 1.65 billion) with a cumulative disbursement rate of 64.73%. The agriculture sector comprised 3 projects (DRSLP I and II and IAIP-SP) worth UA 77.25 million and accounting for 6% of ongoing commitments. The Ethiopia portfolio performance is satisfactory with an overall portfolio rating of 3.3 on a scale of 1 to 4. The portfolio shows a significant improvement in the share of flagged projects that currently stand at 9% (2 projects) compared to 28% in September 2018. This is due to strong coordination with project teams, high-level engagement of Ministers in addressing project challenges and early diagnosis and taking preventive measures. The current two flags are because of slow disbursement and slow procurement due to the complex nature of the projects. These issues are being resolved. The latest supervision ratings for the agriculture projects (DRSLP I & II and IAIP-SP) are all satisfactory at 3.0.

2.7.2 The DRSLP I and DRSLP II encountered delays in staff recruitment, procurement, and overall capacity limitation of the Executing Agency. The turnaround time for loan signature has now significantly improved because of Country Office's pro-active engagement with GoE. The main lessons learned from completed irrigation projects (Koga and Agriculture Sector Support Project), and on-going infrastructure projects (DRSLP I & II) include: (i) for smooth implementation, infrastructure designs should be carried out and finalized prior to commencement of project activities; (ii) the need for an integrated approach with upper catchment treatment and irrigation development to minimize siltation, sedimentation and ensure sustainability of the irrigation system; (iii) the need for creating and facilitating market opportunities including a level playing field to encourage the private sector to participate, (iv) the need for considering adequate remuneration and benefit packages for project staff in order to minimize turnover, attract and retain the competent staff to implement the projects. Most of these lessons learned have informed the design of PESAPYE such as the availability of technical designs of the irrigation schemes before the start of the project, development of the upper water catchment areas, provision of marketing activities for the agripreneurs, among others.

2.8. Key performance indicators

2.8.1 The key performance indicators measuring the progress toward achieving the main project outcomes would generally measure increase in the number of jobs created, reduction in head count rural poverty, reduction in unemployment rate, increase in the number and value of private sector agribusiness investments, number of youth SME's engaged in irrigation supported production and in value addition linkages, efficiency of capacity/skill training and increase in industry contribution to GDP, increase in number of women and youth owned SMEs linked to IAIPs. These are captured in the Project's Results-Based Logical Framework. The data will be collected and collated from reports of the Central/Regional Statistics Agency, the project progress implementation documents at the regional water and agricultural bureaux, labour force surveys, tracer surveys, and project progress implementation documents.

III – PROJECT FEASIBILITY

3.1. Economic and financial performance

FIRR (base case) 28%	
EIRR (base case) 31%	NPV, ETB 2.99 billion at 12%

3.1.1 The project is financially and economically viable, as indicated by the Project's Financial Internal Rate of Return (FIRR) of 28% and Economic Internal Rate of Return (EIRR) of 31%. At the enterprise level, a typical 50 ha farm enterprise (the model used for the agripreneurs) shows that because of the project, annual financial net margins are expected to increase by 29% by the third year with a net financial margin of USD 126,000. This demonstrates that at the enterprise level, the project is financially feasible.

3.1.2 The analysis has considered the following assumptions: (i) a project life period of 25 years; (ii) an infrastructure operating cost of 2% per year of capex during the project life and 7% capex infrastructure investment at year 10; and (iii) an implementation schedule of investment built from the expenditure schedule of activities. The key costs that are considered for the analysis include the capital investment costs for the irrigation infrastructure (headwork and irrigation canals) and incremental operating and maintenance costs.

3.1.3 The benefits considered in the analysis are those derived from increased productivity of crops due to enhanced water management through irrigation for all year farming. The increase in productivity of the crop basket ranges from 26 - 66% (for the cereals and legumes) but for most horticulture crops the increase is over 200%. This is due mostly to growing more than one crop per year (doubling area farmed) due to irrigation and an increase in productivity due to the use of modern technologies, inputs such as fertilizers and good agricultural practices. This increase in productivity translates directly into increased incomes at the household level. The project includes other benefits which have not been factored in the EIRR analysis above such as, increase in land values after installation of irrigation systems; increase in off-farm activities due to increased household income; agribusinesses established by agripreneurs, etc. If all these benefits are incorporated the EIRR would be even higher.

3.1.4 Sensitivity analysis was conducted on the EIRR for various scenarios (see table), which demonstrated that the project is quite robust and would remain viable under a range of alternatives.

Results of the Sensitivity Analysis on the EIRR

Scenario	**EIRR**	**NPV (ETB billion, 12%)**
20% decrease in income from crops	25%	1.91
20% increase in investment costs	26%	2.50
20% decrease in incomes and 20% increase in investment costs	20%	1.42

3.2 Fragility, Peacebuilding & Resilience

3.2.1 Over the last two decades, Ethiopia has recorded robust economic progress despite the local and global shocks such as the COVID-19 pandemic, climate change vulnerability, locust invasion, security issues, among others. Drivers of fragility and resilience in Ethiopia are complex, multidimensional, interlinked and very dynamic. Strong administrative capacities exist to prevent and respond to many pressures. However, high poverty rates and rising inequality and youth unemployment pose persistent challenges. While notable progress has been achieved with regards to Ethiopian-Eritrean relations, risks at the regional level remain if not collectively mitigated and resolved peacefully. Also, tensions and contestations have been simmering since 2015 and particularly between the Tigrayan People’s Liberation Forces (TPLF) and the Federal government since the initiation of economic and political reforms in 2018. The conflict in Tigray escalated in November 2020 with a transient period of active conflicts which ended after few weeks even though pockets of fighting continue to be reported in remote parts of the region. Recent positive developments include the seting-up of an interim regional administration and the development of the government-led Tigray Recovery Assessment and Planning document to pave the way for quick recovery.

3.2.2 The current humanitarian situation remains dire and the current response is not commensurate to the needs, with an estimated 4.5 million people requiring emergency humanitarian assistance. At least two million people are displaced while some 62,000 Ethiopians are living in refugee camps in Sudan, with limited supplies. With Ethiopia hosting over 800,000 refugees in the country, the ongoing conflict and displacement of people exacerbates pre-existing vulnerabilities in several parts of the country, including displaced and hosting communities, particularly in harshly affected areas. Given this situation, both Government and development partners agree that developmental interventions need to go hand in hand with humanitarian response so as to help enhance social cohesion, resilience and sustainability. This will facilitate a gradual return to economic activities and subsequent phase-out of dependency on humanitarian support in the medium-to long terms, due to enhanced prevention, coping, mitigation and adaptation capacities. Several other dimensions of drivers of fragility and resilience are outlined in the Annexe 7.

3.3 Environmental and Social Aspects

Environment

3.3.1 In line with the Bank's Environmental and Social Assessment Procedures, the project is classified as Category 1. The project will include the opening up of irrigable area for Taba (1,200 ha), Belchet (1,425 ha), Gidabo Oromia (1,982 ha), Gidabo Sidama (3,000 ha), and Tekeze Humera (5,000 ha) of irrigation development located in Amhara, Oromia, Sidama and Tigray regional states, respectively. The Government of Ethiopia through the Ministry of Water, Irrigation and Energy, submitted the Environment and Social Impact Studies for all the irrigation schemes and the reports were disclosed on the Bank's website on 29th November 2019 to comply with the mandatory requirement of 120 days before Board consideration. Considering the lapse of time since the ESIA Reports were approved in-country and disclosed by the Bank, the government has provided confirmation to the Bank that the status of the Environmental and Social aspects of the project have not changed and the approval issued in-country is still effective. Therefore, the disclosed ESIA reports are still valid. The same ESIA Reports were also disclosed in-country as required by the Bank, on 18th March 2021. As required by the Environment and Social Safeguards policies of the Bank, the Project has prepared the Environmental and Social Compliance Note which is presented in Annex VII.

Key Environmental and Social Benefits

3.3.2 The development goal of this project is to contribute to poverty reduction and economic growth in Ethiopia through enhanced productivity and commercialization of agriculture, and investments that are cost effective, environmentally and socially sound, and beneficial to the rural poor with the purpose of sustainably increasing agricultural productivity. Hence, the project's positive impacts or anticipated benefits are improved food and nutrition security through increase in crop yields and diversification of food supply due to the provision of irrigation water on irrigable land, increase in land values due to construction of irrigation schemes, increase in local development and employment, increase in opportunities for high value crop production and enhanced household revenues. The COVID-19 pandemic has shown that it is not only a health crisis but an economic and social crisis creating food shortages through disruptions in supply chains, labour shortages, increased food prices, etc. The PESAPYE project will address these challenges though the increased production of highly nutritious foods, agro-processing of foods, capacity building of farmers and local labour creation. To mitigate potential COVID-19 impact, the training and capacity development activities will be adapted to the precautionary measures as per the Government COVID 19 training protocol.

3.3.3 The predicted negative impacts of the project that will need special attention and monitoring, including the following: temporary loss of land and impacts of inadequate physical and social management of camps and workforce; unsafe access routes and construction traffic hazards; H&S hazards of operation and closure of borrow pits and quarries; improper location and treatment of spoil dumps; improper disposal of solid and liquid waste spills and inadequate cleanup; permanent loss of land and other assets; disruption of existing access due to new channels; pollution from agrochemicals; restricted wet season access and related health problems; and ineffective operation of WUAs.

Capacity to Implement the ESMP

3.3.4 Experience shows that projects with potentially large, significant, and uncertain environmental impacts will normally require more intensive supervision. Several mitigation measures are outlined in the ESMP that will eliminate or reduce the negative environmental impacts of the proposed project to acceptable levels when they are implemented. During the construction period, at least two annual reports for the operation phase should be prepared and submitted to the competent authority. The environmental and social activities of the construction contractor will be checked by the supervision consultant on behalf of MoWIE. The regional environmental regulator will have a role of periodically checking ESMP implementation based on progress reports sent by the project management unit and independent inspections. WUAs will be responsible for establishing and enforcing bylaws concerning subjects with important environmental effects such as drain maintenance and running their own affairs in accordance with appropriate standards of transparency and representativeness. The commitments of the key stakeholders including the Bureaux of Agriculture, Tourism and Culture, Water Resources Bureaux, Woreda and Kebele Administrations, Agriculture Offices, and Health Offices to implement the mitigation measures specified in the ESMP and other necessary actions will be vital. The total cost for implementing environmental and social management plans is 9.335 million Birr (USD 230,732).

Cumulative Impacts

3.3.5 The project design noted that within the project watershed areas, many portions of the landscapes remain heavily degraded because of the current agricultural practices in project catchments. The project will complement the ongoing watershed management activities financed by government and other development partners. In this way, the project will address the expected cumulative impacts relating to increased demand for water during the operation of the irrigation systems. The ESIA Report for Tekeze-Humera Irrigation Project includes an analysis Cumulative Downstream Effects. Currently the GoE has commissioned an Expert to conduct cumulative impact’s analysis of the Taba Medium Earth Dam, Belchit River dam and the Tekeze Humera irrigation scheme. The draft reports are expected by the Bank by the 31 July 2021.

Involuntary resettlement

3.3.6 All irrigation schemes have concluded their RAP implementation activities and community members were actively involved in reorganizing their plots to cater for the project. In the case of Belchet and Taba Micro irrigation schemes a total of Birr 8.259 million (USD 204,124) was spent by the Regional Governments on resettlement including land, trees, and structures. According to the designs, the Tekeze and Humera Surface Dams did not trigger resettlement impacts while the Gidabo Reservoir\Dam is already built and the PAPs have moved after being paid compensation. This project financing will strengthen the relationship between the community members and the leadership on improved agriculture activity and will minimize the negative livelihood impacts in the project area.

Climate Change

3.3.7 The proposed project was screened for climate risks and assessed as Category 1. The main risks to the project are reduced rainfall and increased frequency and severity of droughts. Furthermore, with prolonged droughts, soils will become more exposed to heavy erosion during heavy rains, leading to siltation of the dams. The project has incorporated several measures to reduce these climate risks. First, the project will construct dams for irrigation (component 1.1), which is an adaptation measure. Second, the project will not only make use of more adapted and resistant crop varieties, but also promote use of the same amongst farmers as well as train farmers on climate-smart agriculture technologies (components 1.2 and 2.1). Finally, the project will implement several watershed management activities and train farmers on good agricultural practices (component 1.3). The project's carbon footprint is expected to be insignificant since the agro-industrial parks will rely on grid electricity, which is 88% hydro-based. Annex B8.2 gives further information on the project's climate risk analysis and mitigation measures.

Gender Aspects

3.3.8 In Ethiopia, women play an extremely important role in the agriculture sector, in crop and livestock production and value chains and natural resource management activities. Therefore, efforts must be made to enhance their role and participation in the agriculture sector. However, their participation and agricultural productivity are hindered by the prevalent gender inequalities from cultural norms, practices, and stereotypes. Women contribute about 70 per cent of the food production in the country (MoA, 2016), but they have limited access to farmland (and subsequently credit facilities), extension services, agricultural inputs and technologies and markets. Providing women farmers equal access to productive resources could result in increased yields on their farms by 20-30 per cent and could raise total agricultural output by between 2.5-4.0 per cent (MoA, 2016).

3.3.9 This project is registered as Category II as per the categorization of the Gender Marker. By adopting a gender sensitive approach in activities to increase agricultural production and to empower graduate youth agripreneurs, the project will ensure women's participation as equal beneficiaries. The project will address some of the underlying structural constraints (and deterrents) that women agripreneurs face by facilitating access to land, financing, and enterprise support services, particularly for female graduate youth. Access to farmland and subsequently financing is one of the biggest constraints that female-headed households face. The project will also enhance women's voices as well as their price bargaining ability including access to inputs and other services by encouraging their participation in farmers' groups and water use management. Specifically, gender equality and women's empowerment will be enhanced in this project through the following: (i) strengthening women's associations at the various administrative levels in order to support women farmers, (ii) empowering women farmers by ensuring their equal access to agricultural inputs, (iii) training female farmers on irrigation management and operations, (iv) sensitizing the community (and women in particular), encouraging the participation of women in farmer's co-operatives and water use associations (striving to have women in three of the five positions in the water users committees at the *woreda* (district levels), (v) conducting training and sensitivity for contractors and service providers for the proposed irrigation schemes on sexual and gender-based violence, (vi) mainstreaming gender in all project activities targeting the youth (ensuring at least 50% involvement of women as direct project beneficiaries), (vii) ensuring gender responsive resettlement plans should they arise, and (viii) facilitating women's access to credit through the proposed credit scheme.

Social

3.3.10 This project is expected to generate significant socio-economic benefits in terms of youth employment and empowerment of cooperatives. The demand for technical and vocational education and training programs is high since the skills developed in Ethiopian schools do not match the needs of the national labour market. Discussions with youth associations indicated that despite the Government's commitment to youth inclusion in political, social and economic development of the country, youth still face persistent challenges such as insufficient financial support, limited access to land, inadequate technical capacity, and limited access to pre-established markets. The project will address all of these challenges to varying degrees.

IV – IMPLEMENTATION

4.1. Implementation arrangements

4.1.1 The Executing Agency (EA) for the Project will be the Federal Ministry of Water, Irrigation and Energy (MoWIE), while its day to day management would be vested in the IDC as the Project Management Unit (PMU) of the Ministry. The IDC, on behalf of MoWIE, will be responsible for coordination of Project implementation with the four regions.

4.1.2 With the support from Project resources, MoWIE will strengthen the IDC with the recruitment of the following officers for the PMU with qualifications and experiences acceptable to the Bank: Project Coordinator, Procurement Expert, Financial Management Expert, Monitoring and Evaluation Specialist and Social and Environmental Safeguards Specialist whose TOR includes a specific focus on strengthening social cohesion. The staff mentioned above will be recruited competitively following Bank's procedures. Other required skills such as for agriculture value chain, agri-business, youth enterprise, etc and all field activities will be supported by relevant Sector Bureaux at the Regional level. Capacity development for these key project staff and officials is provided for in this project document, including on conflict sensitivity, peacebuilding and social cohesion for the implementation ecosystem. The PMUs will be responsible for the day-to-day implementation of the project, reporting to the PMU who will in turn report to the EA.

4.1.3 The Development Bank of Ethiopia (DBE) will be responsible for the on-lending relating to component 3 (financing scheme for the youth) under the overall guidance of the IDC. DBE will sign a subsidiary agreement with the Ministry of Finance, which will specify the conditions for the on-lending to the final beneficiaries. This subsidiary agreement will be subject to the Bank granting its no objection. Financial reporting of DBE to IDC will be subject to the conditions set in the on-lending agreement.

4.1.4 DBE will receive funds in one tranche from the PMU at IDC and work through its regional district branches in each of the four regions to appraisal, select and supervise other intermediaries such as microfinance institutions and other regional based commercial banks with capacity to appraise, disburse and administer sub-loans to the selected youth owned SMEs, who are the final beneficiaries. The intermediary institutions will work with the regional PMUs and the BDS service provider to select the ready youth SMEs for the credit scheme. The intermediary financial institutions will report to the regional district DBE who will report to the DBE headquarters who will in turn report to the PMU at IDC. The choice of DBE was informed by: (i) its track record in successfully implementing similar facility designs from donors to the Government of Ethiopia e.g. the European Union, IFAD, etc.; (ii) it is fully owned by the borrower, the Government of Ethiopia and that can hence oversight its operations to ensure adherence to the requirements of subsidiary agreement; and (iii) it has regional offices that make it easy to coordinate its lending and monitoring operations across the vast country coverage.

4.1.5 Overall decision making on policy and major issues of the project will be provided by a Steering Committee (SC) whose membership will be drawn from all relevant sector ministries including Ministry of Water, Irrigation and Energy; Ministry of Agriculture; Ministry of Finance; Ministry of Trade and Industry; Ministry of Peace and representatives from Regional Industrial Park Development Corporations. An oversight Committee will also be created at Regional level to ensure proper follow-up of implementation at the regional level.

4.1.6 The Regional Oversight Committee (ROC) will comprise of the Regional Vice President (Chairperson) of the Regional Industrial Parks Development Corporation and representatives from the Bureau of Water, Irrigation and Energy (Secretariat); Bureau of Agriculture; Bureau of Finance; Regional Industrial Development Corporation; Regional Cooperative Agency, Regional District of DBE, Rural Land Administration and Bureau of Women and Children Affairs as well as a representative of the Ministry of Peace. The ROC shall be responsible for monitoring project implementation at the regional level.

4.1.7 While the Bank will be implementing the major components of this project in Amhara and Oromia regions only, the components in Sidama and Tigray regions will be implemented by BADEA using similar implementation arrangement as described above. Given the current security situation in the Tigray region, there are ongoing consultations between the Bank and BADEA at both Management and technical levels on how BADEA will roll out the implementation of the component in the Tigray region.

4.1.1 Financial management

4.1.1.1 The Bank carried out an assessment of MoWIE and the IDC. The IDC will also be responsible for the financial management (FM) of the project. The FM assessment is in accordance with the Bank’s FM Implementation Guidelines-2014. The FM arrangements put in place meet the Bank’s minimum requirements and is adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by the Bank. The assessment concluded that the overall risk is “Moderate” after mitigation measures are taken and implemented as agreed.

4.1.1.2 In line with the Paris Declaration on Aid Effectiveness and Accra Agenda for Action, the project will substantially make use of the Country's FM systems. Project management will be in accordance with the rules and procedures as stipulated in the Commission's Financial policies and procedures. The computerized accounting system of the IDC is the Integrated Budget and Expenditure Management system (IBEX), which is to be migrated to IFMIS (Integrated Financial Management System). Until IFMIS becomes fully operational, the IBEX system will be used for the project financial recoding and reporting. The Director of Finance and Procurement assisted by the Head of Finance and Chief Accountant will be responsible for the FM functions of the project. The project staff will include a Project Accountant with relevant training and experience acceptable to the Bank reporting to the Director of Finance and Procurement Directorate of the IDC. The Project will prepare quarterly reports (financial and physical) which are in line with the Commission's and Bank's reporting requirements and submit them to the Bank within 45 days after the end of each quarter. All financial documents of the project at the regional offices will be kept at the IDC Finance and Procurement Directorate. The Internal Audit Directorate of the Commission will audit the project at least once annually. The internal audit reports will be shared with the Bank during supervision missions, or any time as required by the Bank. The Project will follow the country's financial year of 8th July to 7th July of the following year.

4.1.2 Disbursement

4.1.2.1 The Project will use the direct payment and special account/revolving funds methods to pay all eligible project expenditures. At the Federal level, IDC will open a foreign currency (USD) and a local currency (ETB) account in the name of the project. In addition, IDC will open local currency accounts in each project region to transfer local currency for operating and other miscellaneous project costs. The other methods prescribed in the Disbursement Handbook are also applicable when the need arises after consultation with the Bank and obtaining prior approval.

4.1.2.2 The Disbursement Handbook is accessible through the Bank's website. The Bank will issue a Disbursement Letter, which will provide specific guidelines on key disbursement procedures and practices. Although MoWIE has experience working with the Bank, IDC, does not have experience working with AfDB financed projects. However, we observed that some of the staff at IDC, who have experience with Bank financed projects, were reassigned from MoWIE; even though they are few. With their experience managing the World Bank project, it was found adequate to manage our funds provided that the recommended additional project staff are employed before first disbursement.

4.1.3 External Audit

As per statutory requirement of the country, the Office of Federal Auditor General (OFAG) or an independent firm selected competitively will audit the project's financial statements. If OFAG is to audit the project, the cost of the audit will be covered from government resources. The audit will be done in accordance with the audit terms of reference approved by the Fund or agreed with the government during the negotiations. Audit will include the component disbursed to DBE in the fiscal year the fund was disbursed and utilized. The annual Audit Report, complete with a

Management Letter and management responses, shall be submitted to the Fund no later than six (6) months after the end of the fiscal year.

4.1.4 Procurement Arrangements

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

- **Recipient Procurement System (BPS):** Specific Procurement Methods and Procedures (PMPs) under BPS comprising its Laws and Regulations in accordance with the Ethiopian Federal Government Procurement and Property Administration Proclamation of September 2009, and Federal Public Procurement Directive (June 2010), using the national Standard Bidding Documents (SBDs) or other Solicitation Documents (SDs) as may be agreed during project negotiations under the defined thresholds for goods (UA200,000.00), works (UA2,000,000.00), and non-consulting services (UA50,000.00).

- **Bank Procurement Policy and Methodology (BPM):** Bank standard PMPs, using the relevant Bank Standard Solicitation Documents SDDs, for contracts that are either: (i) above the thresholds indicated under BPS above as detailed in Annex B5, Para. B5.3.2, or (ii) in case BPS is not relied upon for a specific transaction or group of transactions; and (iii) in case BPM has been found to be the best fit for purpose for a specific transaction or group of transactions.

4.1.5 Procurement Risks and Capacity Development: Country, Sector, Executing Agency (EA), and Project procurement risk assessments were undertaken for the project and the output informed the decisions on the procurement regimes (BPS, Bank or Third party) and the PMPs being used for specific transactions or groups of similar transactions under the project. The appropriate mitigation measures and costs are included in the procurement capacity development action plan (CDAP) under the project. The Irrigation Commission (EA) will coordinate with the 4 regions in the procurement of goods, works, and consulting services and through its central unit for administration, the Directorate of Procurement. Specifically, the EA is staffed by one Procurement Engineering Director.

4.1.6 The EA's overall capacity, compliance performance, and operational track record to implement procurement actions under the project, as well as the project complexity, were examined, drawing on prior assessments of past projects of a similar nature implemented by it. The assessment reviewed the EA's organizational structure for implementing the project and the interaction between the proposed project staff responsible for procurement activities and the EA's relevant central unit for administration and finance. The assessment was also conducted in the 4 regions who will be responsible for direct implementation of the project. The EA's capacity was therefore found inadequate and its risk rating was "**High"** as they do not have necessary staff at both Federal and Regional levels to manage procurement under the project. As a mitigation measure, it was recommended that dedicated qualified procurement specialists will need to be recruited and financed by the project for both Federal and the 4 Regions. The Government has requested for advance procurement and was considered positively by the Bank, to commence the recruitment process of the relevant project staff.

4.2. Monitoring

The project is scheduled for implementation over a 60-month period, from July 2021 to June 2026. The periodic performance assessment and result reporting will be carried out by the regional PMUs and the MoWIE in collaboration with the beneficiary stakeholders. Consolidated quarterly and annual activity reports will also be prepared and submitted to the Bank by the MoWIE. The Bank will carry out monitoring and supervision missions at least twice a year, to the extent possible with BADEA. The Task Manager based in RDGE supported by a local consultant based in the Ethiopia Country Office will play an active role in the coordination, country dialogue, and project supervision and monitoring. At the close of the project, a project completion evaluation (PCR) will be conducted to evaluate progress against outputs and outcomes and draw lessons for possible follow-up operation.

4.3. Governance

4.3.1 Ethiopia is ranked 96 out of 180 countries in the world and 19 out of 54 countries in Africa by Transparency International on CPI (2019). However, there is still room for further improvements and the various reforms the Government is undertaking is expected to contribute to this. The legal provisions, including the institutions in charge of dealing with prohibited practices, was reviewed and the risk for its use in Bank-financed projects is rated as ***Moderate***, due to the following reasons which may affect the project during implementation.

- The coordination and cooperation between the Federal Ethics and Anti-Corruption Commission (FEAC) and Federal Public Procurement and Property Administration FPPPAA) is not systematic and more ad-hoc based;
- FEAC has investigators to investigate suspected cases of corruption. However, the number and capabilities of investigators are limited;
- FEAC’s mandate to enforce their decisions is also restricted in terms of procurement.

4.4 Sustainability

4.4.1 The main foundation of sustainability of irrigation schemes is through community-based maintenance systems, i.e., users, through WUAs, which are responsible for the operation and maintenance of the schemes. The Government through the IDC will support the cost of major rehabilitation expenses as per its mandate. As per the policy of the GoE, operation and management of the dams and main canals of medium and large-scale irrigation schemes (above 200 ha) fall under public responsibility. This task is managed by the River Basin Development Authority (RBDA) in each region. The communities through their WUAs will be responsible for operation and management of secondary canals and field level infrastructures as well as distribution and management of water for irrigation. The costs for operation and management of these field level structures will be covered by community contributions collected and managed by the WUAs. For each irrigation scheme, a PMU responsible to RBDA, will be established to handle the operation and management of the dam and main canals post project implementation. The PMU will also be responsible for organizing and capacity development of WUAs as well as facilitating linkage with inputs, markets, financial service providers and agro-industrial parks through aggregation centres and RTCs.

4.4.2 Further, the youth enterprises will receive training and capacity development to establish profitable enterprises and support from a Business Development Organization for a period of three years. The youth enterprises will be linked to markets through an online/digital marketing platform and will be eligible to access affordable financing through the financing facility at the Development Bank of Ethiopia. The government will also provide farm equipment and machinery for training and for rental as well. The rental fees will be ploughed back into the maintenance of the machinery to ensure availability of properly functioning equipment and assuring sustainability. All of these activities aim at making the youth enterprises sustainable.

4.5 Risk management

Anticipated risks emanate from a country's political and governance context, environmental and social conditions, and capacity of the implementing entity. Detailed description of the risks and the respective mitigation measures are presented in a Risk Analysis and Management Matrix in Annex V.

4.6. Knowledge building

4.6.1 The project has been designed to support increased and sustainable production of raw materials to supply the agro-industrial parks in the four regions of Oromia, Amhara, SNNP and Tigray. Building on the experience from previous industrial parks in the country, stakeholders noted that the issues of productivity enhancement support should be part of the program right from the inception planning phase of any future IAIP, while at the same time creating a critical mass of youth entrepreneurs through enterprise skills enhancement and access to land, capital and other productive factors. This project will be a source of useful knowledge for the Bank and the country.

4.6.2 The project has been designed as a unique graduate youth employment model, whereby every group of 12 young graduates will be allocated 50 ha of irrigated land. The reasoning behind the sub-groups of 12 is so that they can create formal enterprises (equivalent of SMEs) that can be recognized by the financial institutions. In addition, these subgroups would have a skill set including engineers, agronomists, social experts (human resources, finance, accounting, etc.) to run successful commercial enterprises. This model will be replicated in other African countries which face similar situation as Ethiopia.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

5.1.1 The financing instrument to be used for this operation is an ADF Grant to be governed by an ADF Protocol of Agreement (the "Agreement") between the Fund and the Federal Democratic Republic of Ethiopia (the "Recipient").

5.2. Conditions associated with Bank's intervention

5.2.1 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. In addition to the *Entry into Force* of the Agreement, the obligation of the Fund to make the first disbursement of the Grant shall be subject to the satisfaction of the following conditions by the Recipient:

(a) The execution and delivery of a Subsidiary Agreement between the Development Bank of Ethiopia and the Recipient in form and substance satisfactory to the Fund; and

(b) Submission of evidence of the appointment or recruitment of the following staff: a Project Coordinator, a Procurement specialist, Financial Management specialist, Monitoring and Evaluation specialist; and Social and Environmental Safeguards specialist for the Project Management Unit, with qualifications and terms of reference acceptable to the Fund.

5.2.3 Conditions Precedent to Disbursements for Works Involving Resettlement. Subject to the provisions of Section 5.2.1 (*Entry into Force*) and Section 5.2.3 (*Conditions Precedent to First Disbursement*) of this Agreement, the obligation of the Fund to disburse the Grant for works that involve resettlement shall be subject to the satisfaction of the following additional conditions by the Recipient:

(a) Submission of a works and compensation schedule prepared in accordance with the Full Resettlement Action Plan ("FRAP") and the Fund's Safeguards Policies in form and substance satisfactory to the Fund detailing: (i) civil works under the Project, and (ii) the time frame for compensation and/or resettlement of all project affected persons ("PAPs") in respect of the civil works;

(b) Submission of satisfactory evidence that all Project affected persons ("PAPs") in respect of works have been compensated and/or resettled in accordance with the Environmental and Social Management Plan ("ESMP"), the Full Resettlement Action Plan ("FRAP") and /or the agreed works and compensation schedule and the Fund's Safeguards Policies, prior to the commencement of such works and in any case before the PAPs' actual move and/or taking of land and related assets; or

(c) In lieu of paragraph (b) above, submission of satisfactory evidence indicating that the resources allocated for the compensation and/or resettlement of PAPs have been deposited in a dedicated account in a bank acceptable to the Fund or remitted to a trusted third party acceptable to the Fund, where the Recipient can prove, to the satisfaction of the Fund, that compensation and /or resettlement of PAPs in accordance with paragraph (a) above could not be undertaken fully or partially, because of the following reasons:

    (i) the identification of the PAPs by Recipient is not feasible or possible;

(ii) ongoing litigation involving the PAPs and/ or affecting the compensation and/or resettlement exercise; or

(iii) any other reason beyond the control of the Recipient, as discussed and agreed with the Fund.

5.2.4 <u>Other Condition.</u> The recipient shall submit the evidence of the execution and delivery of a Co-financing Agreement between the recipient and the Arab Bank for Economic Development in Africa (BADEA) on terms and conditions acceptable to the Fund or the submission of evidence that the Recipient has secured financing from alternative sources to cover the financing gap resulting from failure to obtain the Co-financing, within six (6) months of the first disbursement of the Grant, or such later date as may be agreed between the Fund and the Recipient.

5.2.5 <u>Recipient Counterpart Contribution</u>. The Recipient shall make available the amount not exceeding the equivalent of Three Million Seven Hundred and Twenty Thousand Units of Account (UA 3,720,000) equivalent to Birr 197,589,157 as its counterpart contribution (the "Counterpart Contribution") towards the costs of the Project and, to this end, shall within three (3) months of the first disbursement of the Grant or such later date as may be approved by the Fund, have that the Counterpart Contribution budgeted for in the national budget in accordance with the Financial Administration Amendment Proclamation No. 970/2016 and shall submit to the Fund, a copy of the national budget no later than forty-five (45) days after approval by the Parliament.

5.3. Compliance with Bank Policies

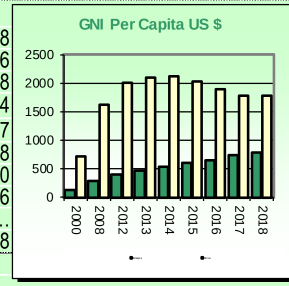
This project complies with all applicable Bank policies.

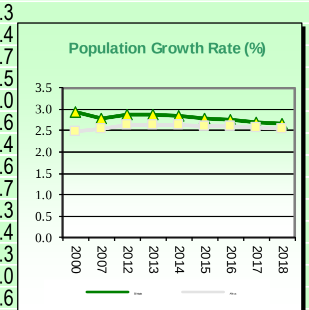
VI – RECOMMENDATION

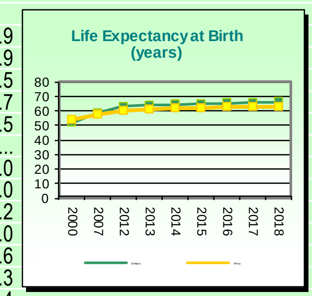
Management recommends that the Board of Directors approve the proposed ADF Grant of UA 33.25 Million to the Federal Democratic Republic of Ethiopia for the purposes and subject to the conditions stipulated in this report.

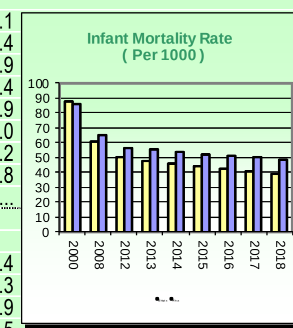
Annex I: Ethiopia Comparative Socio-Economic Indicators

	Year	Ethiopia	East Africa	Africa	Develo-ping Countries
Basic Indicators					
Area ('000 Km²)	2018	1,000	6,232	30,067	94,808
Total Population (millions)	2018	109.2	356.3	1,274.2	6,306.6
Urban Population (% of Total)	2018	20.4	27.2	42.9	49.8
Population Density (per Km²)	2018	109.2	61.1	43.4	68.4
GNI per Capita (US $)	2018	790	975	1 783	4 837
Labor Force Participation *- Total (%)	2018	80.3	72.1	63.5	61.8
Labor Force Participation **- Female (%)	2018	74.2	65.0	54.6	47.0
Sex Ratio (per 100 female)	2018	100.1	99.3	99.8	100.6
Human Develop. Index (Rank among 189 countries)	2017	173	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2007-17	30.8	34.5	31.2	11.8
Demographic Indicators					
Population Growth Rate - Total (%)	2018	2.7	2.7	2.5	1.3
Population Growth Rate - Urban (%)	2018	4.7	4.6	3.6	2.4
Population < 15 years (%)	2018	40.8	42.2	40.8	27.7
Population 15-24 years (%)	2018	21.7	20.6	19.3	16.5
Population >= 65 years (%)	2018	3.5	2.9	3.4	7.0
Dependency Ratio (%)	2018	79.5	82.4	79.2	54.6
Female Population 15-49 years (% of total population)	2018	24.5	24.2	24.1	25.4
Life Expectancy at Birth - Total (years)	2018	66.2	64.8	63.2	70.6
Life Expectancy at Birth - Female (years)	2018	68.2	66.8	65.0	72.7
Crude Birth Rate (per 1,000)	2018	32.3	33.8	33.5	20.3
Crude Death Rate (per 1,000)	2018	6.6	6.8	8.1	7.4
Infant Mortality Rate (per 1,000)	2018	39.1	39.7	48.7	31.3
Child Mortality Rate (per 1,000)	2018	55.2	56.4	70.2	42.0
Total Fertility Rate (per woman)	2018	4.2	4.4	4.4	2.6
Maternal Mortality Rate (per 100,000)	2017	401.0	433.9	432.3	230.0
Women Using Contraception (%)	2018	39.5	40.3	38.5	61.6
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-16	...	13.8	33.6	119.9
Nurses and midwives (per 100,000 people)	2010-16	...	80.5	123.3	233.9
Births attended by Trained Health Personnel (%)	2010-17	27.7	55.4	61.7	78.5
Peop. Using at least basic drinking water services (% of Pop.)	2017	41.1	51.3	66.3	87.7
Peop. Using at least basic sanitation services (% of Population)	2017	7.3	23.9	40.3	68.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2018	1.0	2.7	3.4	...
Incidence of Tuberculosis (per 100,000)	2016	177.0	121.5	221.7	157.0
Child Immunization Against Tuberculosis (%)	2018	85.0	86.7	81.4	85.0
Child Immunization Against Measles (%)	2018	61.0	78.9	76.1	85.2
Underweight Children (% of children under 5 years)	2010-16	23.6	20.1	17.5	15.0
Prevalence of stunding	2010-16	38.4	35.1	34.0	24.6
Prevalence of undernourishment (% of pop.)	2017	20.6	27.2	18.5	12.3
Current health expenditure (% of GDP)	2016	4.0	4.9	5.3	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-18	101.0	97.9	100.1	104.1
Primary School - Female	2010-18	96.1	96.1	98.0	104.4
Secondary School - Total	2010-18	34.9	35.8	52.8	71.9
Secondary School - Female	2010-18	34.2	35.8	50.6	71.4
Primary School Female Teaching Staff (% of Total)	2010-18	37.2	44.4	48.6	62.9
Adult literacy Rate - Total (%)	2010-18	51.8	65.7	66.9	84.0
Adult literacy Rate - Male (%)	2010-18	88.3	74.5	70.8	88.2
Adult literacy Rate - Female (%)	2010-18	44.4	60.2	60.0	79.8
Gouvernment expenditure on Education (% of GDP)	2010-17	4.7	3.3	4.3	...
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	15.1	20.2	8.7	11.4
Agricultural Land (as % of land area)	2016	36.3	86.0	41.8	38.3
Forest (As % of Land Area)	2016	12.5	37.2	23.1	31.9
Per Capita CO2 Emissions (metric tons)	2014	0.1	0.1	1.2	3.5









Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports. *last update : November 2019*

*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+)*

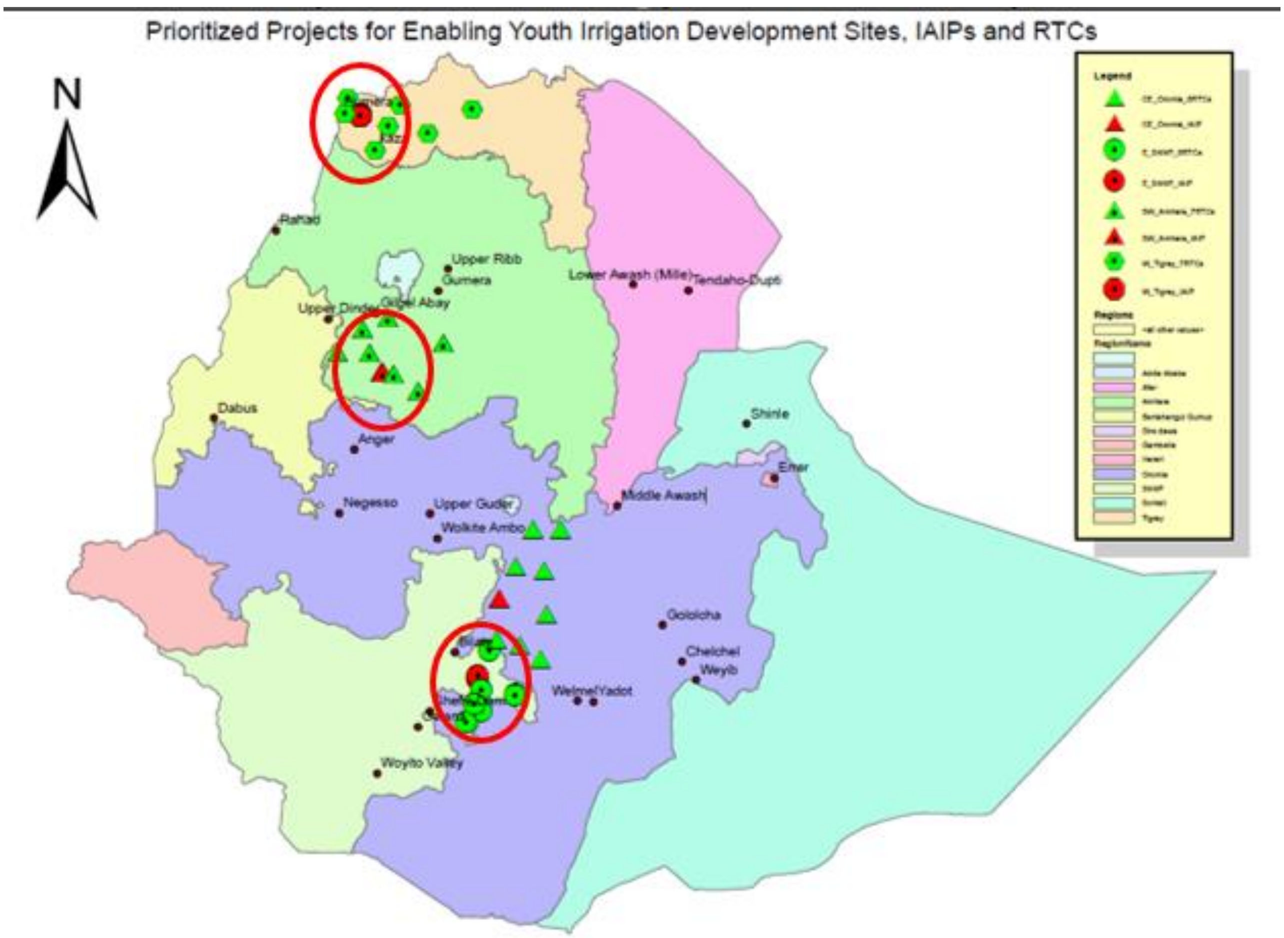
Annex II: Table of ADB's Ongoing Portfolio (As of December 2020)

No	Project	Loan/Grant		Source	Funding Instrument	Disbursement	IP	DO	Age	
		Approval Date	Amount (UA)	(Loan / Grant)		Ratio			Years	Closing Date
PUBLIC SECTOR OPERATIONS										
AGRICULTURE SECTOR			**77,922,000**							
1	Drought Resilience and Sustainable Livelihoods I	19-Dec-12	30,000,000	Loan	ADF	76.26%	3	3	8.1	31-Dec-21
2	Drought Resilience and Sustainable Livelihoods II	26-Nov-14	28,482,000	Loan	ADF	67.05%	3	3	6.2	31-Dec-21
3	Integrated Agro Industrial Parks Support Project	6-Dec-18	11,000,000	Grant	ADF	12.14%	3	3	2.1	31-Dec-23
	Integrated Agro Industrial Parks Support Project	5-Jun-19	8,440,000	Grant (EU)	ADF	0.00%	3	3	1.6	31-Dec-23
TRANSPORT SECTOR			**435,810,866**							
4	Mombasa-Nairobi- Addis Road Corridor-Hawassa-Agere Mariam Road Project (Phase III)	30-Nov-11	105,000,000	Loan	ADF	90.74%	3.2	4	9.0	31-Dec-20
5	Bedele-Metu Road Upgrading	10-Nov-11	41,060,000	Loan	ADF	86.05%	3	3	8.7	30-Jun-21
6	Modjo- Hawassa Highway Road Project Phase I	6-Nov-13	84,080,000	Loan	ADF	78.43%	4	4	7.2	30-Jun-22
	Modjo- Hawassa Highway Road Project Phase I*	6-Nov-13	1,630,000	Grant	ADF	55.14%	4	4	7.2	30-Jun-22
7	Ethiopia Integrated Transport Program Phase I*	7-Dec-16	41,667,836	Grant	ADF	27.02%	4	3	4.1	31-Dec-23
	Ethiopia Integrated Transport Program Phase I	7-Dec-16	25,589,863	Loan	ADF	27.62%	4	3	4.1	31-Dec-23
	Ethiopia Integrated Transport Program Phase I	30-Mar-20	64,824,326	Loan	JICA	0.00%	NR	NR	0.8	31-Dec-23
8	Ethiopia-Djibouti Transport Corridor Project Phase I	16-Jul-19	69,640,000	Grant	ADF	0.00%	NR	NR	1.5	31-Dec-26
9	Ethiopia-Sudan SGR Railway Feasibility Study	14-Jan-20	869,565	Grant (ADF)		0.00%	NR	NR	1.0	30-Dec-25
	Ethiopia-Sudan SGR Railway Feasibility Study	5-Nov-19	1,449,275	Grant (Nepad)		0.00%	NR	NR	1.2	30-Dec-25
ENERGY SECTOR			**296,040,000**							
10	Ethiopia-Kenya Electricity Highway Project	19-Sep-12	150,000,000	Loan	ADF	67.43%	3	3	8.3	31-Dec-22
11	Mekelle-Dallol & Semera-Afdera Power Transmission Project.	14-Jul-16	73,810,000	Loan	ADB	36.94%	3	3	4.5	31-Dec-21
12	Addis Ababa Transmission & Distribution System Rehabilitation and Upgrading Project	22-Nov-17	61,410,000	Loan	ADF	14.11%	3	3	3.2	31-Dec-24
	Addis Ababa Transmission & Distribution System Rehabilitation and Upgrading Project*	22-Nov-17	10,820,000	Grant	ADF	3.98%	3	3	3.2	31-Dec-24
WATER SECTOR			**120,822,049**							
13	Support to the One Water Sanitation and Hygiene National Program	8-Sep-14	60,000,000	Loan	ADF	100.00%	4	4	6.4	31-Dec-20
	Support to the One Water Sanitation and Hygiene National Program*	8-Sep-14	6,810,000	Grant	TF	85.80%	4	4	6.4	30-Jun-21
14	Four Towns Water and Sanitation Improvement Program	13-Jan-16	54,012,049	Loan	ADB	19.60%	3	3	5.0	30-Jun-23
MULTI - SECTOR			**121,173,000**							
15	Institutional Support project for PPPs	26-May-15	1,173,000	Grant	ADF	65.78%	3	3	5.7	30-Dec-21
16	Ethiopia COVID-19 Crisis Response Budget Support (ECRBS) PBO	3-Jul-20	120,000,000	Grant		100.00%	NR	NR	0.6	30-Jun-21
	PUBLIC SECTOR TOTAL		**1,051,767,915**							
PRIVATE SECTOR OPERATIONS										
17	Ethiopian Airlines	14-Dec-16	93,600,000	Loan	ADB	100%	3	3	4.1	31-Jan-17
	Ethiopian Airlines	14-Dec-16	23,100,000	Loan	ADB	100%	3	3	4.1	31-Jan-17
	PRIVATE SECTOR TOTAL		**116,700,000**							
TOTAL INVESTMENT OPERATIONS			**1,168,467,915**							
TRUST FUNDS										
18	Marketing and Service Chain Support for Total Sanitation in Arba Minch	11-Jun-15	973,536	Grant	TF	84.62%	3	3	5.6	31-Jan-21
19	SEFA - Ethiopia Renewable Energy Program Phase I	9-Jul-19	721,014	Grant	TF	??	NR	NR	1.5	31-May-21
TOTAL TRUST FUNDS			**1,694,550**							
TOTAL PORTFOLIO			**1,170,162,465**							
	*Grant component	**USD**	**1,614,824,202**				**3.2**	**3.2**	**5.1**	

Annex III: Key related projects financed by the Bank and other development partners in the country

	Project	Budget (USD Millions)	Development objective	Development Partner
1	Drought Resilience and Sustainable Livelihoods I	42.6	Improved livelihoods and resilience of the pastoral production system, with the ultimate goal of contributing to poverty reduction, food security and sustainable economic growth.	AfDB
2	Drought Resilience and Sustainable Livelihoods II	40.4	Improved livelihoods and resilience of the pastoral communities in view of recurrent climatic crises.	AfDB
3	Integrated Agro Industrial Parks Support Project	15.6	Create a better environment for increased investment in agro-food and allied sectors; improve human capacities and skills of rural populations to benefit from new agribusiness employment opportunities.	AfDB
4	Agriculture Growth Program (AGP II) (2015-2020)	350	To increase agricultural productivity and commercialization of small holder farmers targeted by the project and contributes to increased dietary diversity and consumption at the household level.	World Bank
5	Support to the Agricultural Growth Programme II (AGP II) and Nutrition	50.0	To increase agricultural productivity and commercialization of small holder farmers targeted by the project and contributes to increased dietary diversity and consumption at the household level.	EU

Annex IV: Map of the Project Area



Annex V: Risk Analysis and Management Matrix

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
COUNTRY'S POLITICAL AND GOVERNANCE CONTEXT	Short-term challenges in the implementation of the project due to the recent political developments in Tigray region.	Moderate	Undertake close follow up/dialogue with Government; The Bank to actively participate in the design and operationalization of the Tigray recovery and reconstruction plan in co-ordination with Development Partners; Provide orientation on AfDB procedures for the new regional structure to ensure timely project operationalization;	AfDB/ Executing Agency
	Delay in the availability of Government matching fund	Low	Undertake effective dialogue; delays are rare in Government matching funds availability.	
SECURITY	Uncertainties with regards to potentially rapidly changing security situation in regions and sites of project implementation	High in Tigray; Low - Moderate in other regions	Strong coordination amongst all involved partners to monitor evolving situations on the ground, apply context and time specific approaches vis-à-vis implementation and protection of project assets, and apply a phased approach along humanitarian-development-peace (HDP) to incrementally enhance resilience.	Executing Agency, AfDB, BADEA
ENVIRONMENTAL AND SOCIAL	Susceptibility to recurrent drought. Continuous spread of COVID-19. Socio-cultural and religious practices could hinder attitude	High Moderate Moderate	Introduction of new/ improved crop varieties, water-harvesting for irrigation of gardens, and training of farmers on climate-smart agricultural technologies. Continuous operationalization of COVID-19 response plan, including effective strategic COVID-19 vaccination. Conduct community sensitizations/ campaigns targeted at community leaders, religious leaders, and PLW	Executing Agency

	change among communities Weak social cohesion and tensions	High in Tigray, Moderate in other regions	Specific conflict sensitivity and peacebuilding lens applied during implementation to ensure inclusivity of diverse community members to prevent marginalization and grievances, especially in the Tigray region, thereby also strengthening social cohesion and peacebuilding momentum.	
CAPACITY OF IMPLEMENTING ENTITY	Weak implementation capacity High turnover of frontline staff	Moderate High	Undertake the planned capacity strengthening interventions in the first year of project execution and throughout implementation as may be needed. Contribute to staff retention through capacity strengthening and facility improvement interventions	Executing Agency

Annex VI: Monitoring Matrix

A. Alignment indicators			
Indicator name	Definition/ description	Source	Baseline and targets (where possible)
Additional farmers using improved inputs, including irrigation, fertilizer and seed	No of farmers using improved inputs (irrigation, fertilizer and seed) who were not using them before	Project reports and farmer associations/ WUAs	Baseline (2021): Target (2026): 20,000

B. Outcome and output indicators *(performance indicators)*

Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					DATE 1	DATE 2	DATE X
Outcome indicator 1.1: Total number of jobs created as a result of establishment of the irrigation schemes (disaggregated by age group and gender 50% women)	Measure of the increase in the number of jobs created and the inclusion of women and youth	Project progress reports	Regional PMUs, MoWIE	Quarterly Activity Reports, Annual Activity Reports.	2021	2023	2026
Outcome Indicator 2.1: Number of youth SMEs in the established irrigation schemes supplying raw materials to the IAIPs/RTCs (aggregate based on data per region), (membership disaggregated by gender and targeting at least 50% women representation).	Measure of enterprises established	Regional water and agricultural bureaus/ Project progress implementation documents	MoWIE/ PMUs	Annual	2021	2023	2026
Component 1 Output Indicator 1.1 Area under Irrigation Infrastructure	Measure of hectares under irrigation	Project Progress reports and implementation documents	MoWIE/PMUs/ IDC	Annual	2021	2023	2026
Output Indicator 1.2 Increase in productivity of key value chain commodities	Measure of production of key agricultural commodities to supply the IAIPs and other markets	Project progress reports and implementation	PMUs	Annual	2021	2023	2026
Output Indicator 1.3 Beneficiaries' Capacities developed through establishment of WUAs (disaggregated by gender and targeting at least	Measure of capacity development of farmers and by gender	Project progress reports and implementation documents	PMUs	Annual	2021	2023	2026

40% women's representation)							
Output Indicator 1.4 Improved management of watershed area	Measure of watershed/catchment area developed	Project progress reports and implementation documents	PMUs	Annual	2021	2023	2026
Component 2 Output Indicator 2.1 Successful and profitable youth-led agribusinesses established to support commercial agriculture	Measure of youth agripreneur enterprises developed	Project progress reports	PMUs	Annual	2021	2023	2026
Component 3 **Output Indicator 3.1.** Establish a sustainable credit scheme dedicated to SME and agripreneurship development	Measure of access to finance and capacity building for agripreneurs	Records of Uptake of funding from DBE	DBE Government	Annual	2021	2023	2026
Component 4 **Output Indicator 4.1** Support the establishment of structures required for project implementation and coordination	Measure of institutional capabilities	Project progress Reports and implementation documents	PMUs / IDC	Annual	2021	2023	2026

Annex VII: Project Fragility and Conflict Analysis

This fragility and conflict analysis for the *Productivity Enhancement Support for the Integrated Agro-Industrial Parks and Youth Employment (PESAPYE)* project builds on the latest draft version of the *Tigray Emergency Recovery Plan - Protecting Lives and Livelihoods for a Better Future* led by the Government of the Federal Democratic Republic of Ethiopia with support from Development Partners, the Briefing to CODE on the situation in Tigray region in May 2021 as well as the latest *Country Resilience and Fragility Assessment (CRFA)* exercise . 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 and still tentative findings across the 7 dimensions of **Pressures** and **Capacities** reflect the complexities, multi-dimensionalities, interlinkages and dynamic situation in Ethiopia. This includes the need for holistic, integrated and well-coordinated responses along the humanitarian-development-peace (HDP) nexus to prevent and address economic, social, political, environmental/climate change and regional drivers of fragility.

Ethiopia is not classified as a transition state in the Bank group. However, the country is affected by persistent pockets of fragility that are undermining its development efforts. This fragility and conflict analysis briefly presents the key drivers of fragility and resilience of the country, and describes the peace and security situation, with a particular emphasis on the four PESAPYE project implementation areas and their locations as below:

1. Taba Earth Dam Project: Awebel Woreda, East Gojam Zone, **Amhara Region**
2. Tekeza-Humera Irrigation Project: Kafta-Humera Woreda, Western Zone, **Tigray Region**
3. Belchit Medium Earth Dam Irrigation Project: Awabel Woreda and Dejen Woreda, East Gojam Zone, **Amhara Region**
4. Gidabo Irrigation Project, Abaya Woreda, Borana Zone, **Oromia Region** and Loka-Abaya Woreda, Sidama Zone, **Sidama Region (formerly SNNP Region)**

It also identifies potential risks and provides mitigation measures and recommendations on the project implementation in insecure environments.

1. - Overview of Fragility and Resilience in Ethiopia

Ethiopia’s per capita income has risen significantly since 1990 (from around USD254 to now over USD855), while life expectancy increased by about 10 years in a decade and infant mortality was reduced by half (IMF, 2020). These improvements are driven by the country’s sustained economic growth averaging 10% during 2004/05 – 2018/19. Although the country has been gradually recovering from the 2015/16 – 2017/18 droughts, growth in the agriculture sector remains fragile, a sector that dominates the economy in terms of employment. The share of agriculture in GDP has decreased steadily even though the sector employs over 70% of the population and accounts for over 75% of merchandise exports compared to 13% for manufacturing exports. Furthermore, the government launched a new 10-year plan (2020-2030) aimed to sustain the impressive economic growth achieved under the Growth and Transformation Plan, while prioritizing private sector development. There were significant efforts and investments to enhance industrial and agricultural capacities of the country which continue to put Ethiopia on a strong footing for building economic resilience and broad-based growth (ET-CFP report; COET, Oct 2019).

Although significant progress has been made, the recent *Country Resilience and Fragility Assessment (CRFA)* of Ethiopia shows important pressures related to poverty, presence of armed conflicts, insecurity in neighbouring countries, vulnerability to natural disasters, food insecurity and climate induced vulnerabilities such as prolonged drought, flooding, and locust infestations.

For example, despite this impressive economic growth, Ethiopia remains a low-income country with a real GDP growth per capita estimated at about 2.6% in 2020 (GoE 2020). Ethiopia's demographic pressure remains strong. With more than 115 million people (2020), Ethiopia is the second most populous nation in Africa after Nigeria, and the fastest growing economy in the region. The overall outlook is that the pressure on job creation, service provision and natural capital will rise sharply rather than diminish in the future. Demographic projections indicate that approximately 3 million young Ethiopians are entering the labour force every year who are not being fully absorbed into formal employment[5]**.**

Ethiopia is vulnerable to environmental factors such as droughts, natural disasters, and food insecurity. However, the country continues to build resilience to environmental challenges by implementing strong emergency preparedness mechanisms and policies and designating nearly a fifth of its territory as protected land.

As stated above, one major effect of the increased violence across much of the country is increased food insecurity. Lower-than-expected rainfall in late 2020 and early 2021 and deteriorating macroeconomic conditions have also contributed to a high level of food insecurity that is projected to last at least through September 2021 in much of eastern and central Ethiopia. Integrated Food Security Phase Classification (IPC) level 3 is projected to be present in Tigray's Western Zone, Oromia's Borana Zone, and Sidama while IPC level 2 is projected to be present in parts of Amhara's East Gojam Zone.[6] This is most serious in parts of Tigray, which are in IPC level 4.

Additionally, Ethiopia is experiencing security challenges in key regions and pressures emanating from insecurity in neighbouring countries (Sudan, Eritrea, Somalia, and South Sudan). Even though Amhara, Tigray, Oromia and Sidama regions offer tremendous development opportunities, these could be undermined in the event of continued or/renewed insecurity.

For example, ongoing conflicts could constrain access and logistics in affected areas. This may have a number of impacts, the most significant of which include limiting access to project areas, hampering effective project oversight, and inhibiting the development or operation of supply chains, both for project inputs and for the outputs of the Integrated Agro-Industrial Parks (IAIPs) and agro-commercial enterprises. This latter impact is likely to be especially relevant for the kind of modernized agricultural activities envisioned under PESAPYE, as they are likely to require more complex input and output supply chains involving both a greater number of sources and destinations and greater distances between those sources and destinations and project areas. This

[5] United Nations cooperation framework with the Federal Democratic Republic of Ethiopia for the period 2020 - 2025

[6] According to the Famine Early Warning Systems Network

will require particular attention of the PMU during implementation. Here it is important to reiterate that the Bank financing only covers 3.4% of activities / resources allocated to Tigray by the project (UA 852,140), while BADEA financing covers 94.7% and the Government 1.9%. Bank activities in Tigray under this project only covers training and capacity development of the youth entrepreneurs and some administrative costs amounting to UA 852,140.

Sources of Financing for each region (UA '000)

	Amhara	Percent	Oromia	Percent	Sidama	Percent	Tigray	Percent	Federal PIU	Percent	Total	Percent
Gov. of Ethiopia	402.32	5.0	434.50	2.6	434.50	3.4	469.26	1.9	1,977.69	19.4	3,718.28	5.1
ADF	7,503.77	93.1	15,923.80	96.5	852.14	6.8	852.14	3.4	8,117.47	79.7	33,249.31	46.0
BADEA	151.59	1.9	151.59	0.9	11,327.48	89.8	23,574.60	94.7	83.82	0.8	35,289.08	48.8
Total Cost	8,057.68	100	16,509.89	100	12,614.12	100	24,896.00	100	10,178.97	100	72,256.67	100

2. Drivers of instability & conflict: need to reinforce peace and social cohesion in project regions

Although there are isolated cases of insecurity in some parts of the Tigray region, these will not affect project implementation as only 2.6% of the Bank's contribution is going to Tigray, largely on training and capacity development for the youth agripreneurs. This is why this section is largely focusing on the Tigray region.

Tensions between the Tigrayan People's Liberation Forces (TPLF) and the Federal government had been simmering since the initiation of economic and political reforms in 2018. When the new Prime Minister came into power in 2018, the Tigray People's Liberation Front (TPLF) saw its dominance of the economic, political and security sectors threatened by the reforms initiated by the Federal administration, according to some observers. In 2019, the TPLF refused to join the Prosperity Party (PP), which is an amalgamation of eight political parties created by the new Prime Minister in his bid to open-up the political space and comprised affiliate parties from all other regions. The PP was created as a successor to the Ethiopian People's Revolutionary Democratic Front (EPRDF), which had ruled Ethiopia for 28 years since 1991 and was dominated by the TPLF since its creation.

In September 2020, the tensions further escalated when Tigray region held its own election in defiance of the Federal government's postponement of regional and federal elections due to the COVID-19 pandemic. The Federal government accused the TPLF of destabilizing the country by arming different rebel groups and sponsoring conflicts. Indeed, since the TPLF lost control of the federal government in 2019, the frequency of ethnic-based conflicts in all regional states, except in Tigray, spiked. These political dynamics increased voices for secession among the Tigrayan political leadership leading to open conflict in November 2020. Matters reached a tipping point at the start of November 2020 when the TPLF attacked a Federal military command post in the Tigray region and killed Ethiopian National Defense Forces (ENDF) personnel. The Federal government responded with a Law Enforcement Operation (LEO) on 4th November 2020. Federal troops, bolstered by regional security forces from Amhara region, advanced swiftly into TPLF-held territory and within weeks took control of Mekelle, the region's capital. The LEO was officially declared concluded on 28th November 2020 when the ENDF regained control of Mekelle. An interim regional administration was immediately set up by the Federal Government and restoration of essential economic and social services has since been initiated and is ongoing.

In response to the current situation, the Government has prepared the Tigray Recovery Assessment and Planning document. The document recommends accelerating efforts to restore basic social and economic services, including emergency food relief, health services, refugee and IDP assistance and a gradual restoration of infrastructure, including telephone lines, potable water, electricity, banking, and other essential services. This was informed by a quick assessment of priority requirements for early recovery, carried out by the Ministry of Finance (MoF) and Development Partners (DPs) including the Bank, the World Bank and UN Agencies. The assessment included desk reviews in which the Bank participated fully, and field visits in Tigray. The document has five pillars, namely: *i. Social cohesion, stability, and trust-building, ii. Restoring government, functions at all levels, iii. Restoring public infrastructure, and economic services, iv. restoring basic social services in coordination with humanitarian assistance,* and *v. restarting private sector business and economic activity*. The document underscores the need for a comprehensive socioeconomic response and recovery programme, using the triple nexus approach (humanitarian-development-peace) for the rapid recovery of Tigray. These priority areas are assigned to DPs based on interest and comparative advantage. The Bank, World Bank, USAID and UN agencies are participating in two priority areas: *Restoration of public infrastructure and economic services*, and *Restoration of social services in coordination with humanitarian assistance*, which are aligned with the activities proposed by the PESAPYE project.

3. Conflict-sensitive project design: bolstering social cohesion

At the project-level, the design and implementation of the project (see activities and sub-activities) specifically targets some of the core drivers of social tensions, conflict and violence. In applying the *fragility-lens* in this project, the proposed project-level interventions and activities are geared to address the identified pressures and strengthen capacities. By tailoring project interventions towards addressing project-level risks, the project ultimately contributes to help remedy some of the major drivers eroding social cohesion. For this reason, the project team will be working in tandem with the national authority’s focal agencies to ensure conflict sensitivity and Do-No-Harm principles are adhered to throughout the project implementation phases.

The table below presents the approach of applying the fragility-lens in the project design to contribute to addressing the root causes of tensions, weak social cohesion and escalations in Ethiopia, specifically in the Tigray, Oromia, Amhara and Sidama Region (formerly SNNP Region).

Pressures undermining momentum towards Peace and Stability	**Project-level design/activities to foster resilience**
Low/underdeveloped infrastructure and human capital base	▪ Component 1 contains Irrigation Infrastructure Development; Scheme Management Organization and Capacity Development and Watershed management, with a specific focus on reinforcing the inclusiveness and peacebuilding agendas, including enhancing community resilience for the diverse local population.

Un-employment (especially among the youth), poverty and lack of social cohesion	▪ Component 2 contributes to strengthen capacity of youth agripreneurs and farmer groups to establish and run profitable agribusiness enterprises, with trainings including a focus to reinforce appreciation of diversity, mutual respect and tolerance; awareness and reduction of biases; strengthen social cohesion etc. ▪ The PMU with dedicated staff within IDC at Federal level and PMUs at regional levels will include an Environmental and Social expert whose TOR includes a focus on strengthening social cohesion during project implementation to help prevent grievances, marginalization and reinforce the social contract. Specific conflict sensitivity, peacebuilding and social cohesion related capacity development of the PMU and the implementation ecosystem will contribute towards enhancing peacebuilding and social cohesion.
Lack of access to basic social services/food and livelihood insecurity, low levels of education, training, and skills	▪ Components 1, 2 and 3 collectively contribute towards enhanced livelihoods, resilience and sense of belonging (participatory and inclusive design).
Environmental degradation/ volatile seasonal rainfall/soil degradation/climate change	▪ Component 1.3: Within the project watershed areas, many portions remain heavily degraded because of the current agricultural practices, hence the included focus to address critical needs of communities and cushion them from climate-induced water stresses.

5. Conclusion and Recommendations

The project has the potential to enhance stability and socio-economic transformation in the target regions, which are marked by socio-political tensions. To this end, the project promotes economic empowerment and inclusiveness. The implementation will strive to increase cooperation with civil society, build capacity at all levels, address cross-cutting issues such as those at the intersection of humanitarian action, development and peace, expand partnerships, and contribute to advancing gender equality. The socio-economic activities arising from the specificities of the project will contribute to strengthening access of the vulnerable and poor to production factors and basic social services by promoting employment and income opportunities in order to reduce their vulnerability and strengthen their resilience. However, the challenges identified, including security, environmental, political (elections-related), must be taken into consideration throughout the implementation phase of the project. To this end, it will be necessary to adopt the following measures:

- Build capacity of the PMU in charge of project management and implementation to provide them with the necessary skills to apply the Do-No-Harm principle throughout the implementation of the project. The Bank will ensure effective coordination with the relevant implementing partners, including information sharing and monitoring of the situation on the ground.

- Adopt best practices for the monitoring of the project site, including the prioritisation of subcontracting with local actors (local private sector, civil society organizations, community-based groups); For the monitoring of hard infrastructure activities such as the irrigation component of the project, geolocation tools allowing real time satellite images of infrastructure and works in insecure environment can be used;

- The long rainy season known as "Kiremt" which occurs in June and mid-September could disrupt implementation timelines and access to the project sites. In the event of occurrence, the Bank will use a phased implementation approach to continue project activities in other regions/sites in Oromia and Amhara while conditions improve. It will not affect the project delivery as the four project areas are not co-dependent for their implementation. The Bank has the flexibility to adopt a phased implementation schedule starting with the other project sites. The Bank will also work with national authorities to explore alternate routes for the delivery of key project inputs if access remains an ongoing issue.

Annex VIII: Environmental and Social Compliance Note (ESCON)

A. Basic Information[7]		
Project Title: Productivity Enhancement Support for the Integrated Agro-Industrial Parks and Youth Employment (PESAP-YE)		**Project ''SAP code''**: P-ET-AA0-018
Country: Ethiopia	**Lending Instrument**[8]: DI ☒ FI ☐ CL☐ BS☐ GU☐ RPA☐ EF☐ RBF☐	
Project Sector: Multisector		**Task Team Leader**: Duncan MWESIGE
Appraisal date: 21 – 30 October 2019 & 23- 27 November 2020		**Estimated Approval Date**: 19/05/2021
Environmental Safeguards Officer: Emmanuel MULIGIRWA		
Social Safeguards Officer: Muja Annah RUTEBUKA		
Environmental and Social Category: 1	**Categorization date**: 11/09/2019	**Operation type**: SO ☒ NSO ☐ PBO ☐
Is this project processed under rapid responses to crises and emergencies?		Yes ☐ No ☒
Is this project processed under a waiver to the Integrated Safeguards System?		Yes ☐ No ☒

B. Disclosure and Compliance Monitoring **B.1 Mandatory disclosure**	
Environmental Assessment/Audit/System/Others (specify: ESMF, 04 ESIAs)	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☒ NA ☐
Date of "in-country" disclosure by the borrower/client	18/03/2021
Date of receipt, by the Bank, of the authorization to disclose	26/11/2019
Date of disclosure by the Bank	29/11/2019
Resettlement Action Plan/Framework/Others (specify: …………………………………………………………….)	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
Vulnerable Peoples Plan/Framework/Others (specify: ……………….……………….…………………………...)	
Was the document disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.	

B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes ☒ No ☐ NA ☐
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes ☒ No ☐ NA ☐
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?	Yes ☐ No ☐ NA ☒
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes ☒ No ☐ NA ☐
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes ☒ No ☐ NA ☐

C. Clearance

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?
Yes ☒ No ☐

Prepared by:	***Name***	***Signature***	***Date***
Environmental Safeguards Officer:	Muligirwa Emmanuel		30.03.2021
Social Safeguards Officer:	Muja Annah Rutebuka		30.03.2021
Task Team Leader:	Duncan Mwesige		30.03.2021

[7] **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

[8] **DI**=Direct Investment; **FI**=Financial Intermediary; **CL**=Corporate Loan; **BS**=Budget Support; **GU**=Guarantee; **RPA**=Risk Purchase Agreement; **EF**=Equity Financing; **RBF**=Results Based Financing.

Submitted by:			
Sector Director:	Atsuko TODA	30.03.2021	30.03.2021
Cleared by:			
Director SNSC:	Maman-Sani ISSA		07.04.2021

Annex IX: Justification for Contributing Less than the Minimum Required from the Government of Ethiopia

1. Ethiopia is categorised as an ADF-only country due to its high risk of external debt distress assessment by the IMF and IDA since 2017 and the current cost-sharing limit for Ethiopia is 10% for ADF. Based on the Bank's policy on Expenditure Eligible for the Bank Group Financing with Respect to Counterpart Financing, the Government's contribution is expected to be at least 10 percent of the project costs (net of taxes). The justification for the Government of Ethiopia contribution of less than 10 percent (actual contribution is 7.1 percent) for this project is given below.

Ethiopia Macroeconomic Trajectory before and during the COVID-19 Pandemic

2. ***The economic impact of the COVID-19 pandemic is rapidly unfolding.*** After nearly two decades of robust growth averaging about 10 percent per annum, projections point to a deceleration in real GDP growth from 8.2 percent in 2019 to 6.1 percent in 2020 (see table 1 below). The medium-term economic outlook is contingent on the impacts of the COVID-19 crisis, the pace of recovery, conflicts and other shocks. Real GDP growth is projected to slow down to 2 percent in 2021 because the pandemic disproportionately impacted the first half of the fiscal year, before recovering to almost 8 percent in 2022. The services sector, especially the hospitality sectors, took the largest hit from the disruptions in global supply chain, impacting mainly trade related services. Measures to contain the spread of pandemic such as restrictions on domestic and international travel and closure of schools stymied tourism related services, consumption and incomes. Ethiopia's Jobs Creation Commission estimates that up to 2.5 million jobs could have been lost, especially in the industrial parks, due to the pandemic. Ethiopia's growth before the outbreak of the coronavirus epidemic was driven mainly by public investments in infrastructure. Economic recovery will be led by growth in industry and services sectors. The ongoing political, economic and financial sector reforms, in line with the Homegrown Economic Reform will boost growth and enhance domestic resource mobilization.

3. ***Fiscal policy and current account have worsened due to COVID-19.*** The fiscal deficit including grants increased from 2.5 percent of GDP in 2019 to 2.8 percent of GDP in 2020, financed largely by auctions of Treasury bills. Tax revenue increased by 16 percent but tax-to-GDP ratio declined to 9.2 percent in 2020, from 10 percent in 2019 due to delayed implementation of tax forms. Public spending decreased to 14.5 percent of GDP from 14.9 percent in 2019, in line with the fiscal consolidation strategy. Exports and imports of goods and services increased by 12 percent and 1.7 percent, respectively, in 2020 compared to 16 percent and 11.8 percent in 2019, which helped to narrow the current account deficit to 4.4 percent in 2020 from 5.3 percent in 2019. The growth of exports in 2020 was on account of increased gold,[9] flowers, coffee and chat exports. Service sector exports declined by about 6 percent, due to lower Ethiopian Airlines revenues. Foreign direct investment (FDI) and personal remittances declined by almost 20 percent and 10 percent, respectively, to 2.2 percent and 5.3 percent of GDP in 2020, reflecting the global economic slowdown, especially in the United States and Europe, Ethiopia's main remittances source market. New disbursements of grants and loans increased by almost 72 percent, financing the current

[9] Exports growth was 5.6 percent when gold is excluded.

account deficit and compensating for lower FDI and remittances. Gross reserves declined to US$3.1 billion from US$3.4 billion in 2020; representing 2.5 months of imports.

Table 1: Macroeconomic Trends and Prospects (2018-2021)

Macroeconomic Indicators	2016	2017	2018	2019	2020 (e)	2021 (p)	2022 (p)
Real GDP Growth (%)	7.6	9.6	6.8	8.4	6.1	2.0	7.9
Real GDP Growth per Capita (%)	4.9	6.9	4.2	5.8	3.5	-0.5	5.4
Inflation %	7.8	7.2	13.8	15.7	20.6	12.0	9.9
Overall Fiscal Balance, Including Grants (% GDP) *	-2.3	-3.2	-3.0	-2.5	-2.8	-3.4	-3.1
Current Account (% GDP)	-9.1	-8.5	-6.5	-5.3	-4.4	-6.2	-5.3
Sources: AfDB Statistics Department. Data are as of December 2020 and are from domestic authorities; estimates (e) and prediction (p) based on authors' calculations. * Data for fiscal year: Year n refers to n-1/n							

Sources: AfDB Statistics Department and Government of Ethiopia estimates

4. ***Government commitment to implement its development program and reforms.*** Ethiopia is strongly committed to economic transformation. The authorities launched the Ten-Year Development Plan 2021-2030 in January 2021 which promises to stimulate growth over the longer-term. This comes on top of the three-year Homegrown Economic Reform Agenda that aims to address current macroeconomic imbalances as well as structural and sectoral bottlenecks for private sector growth. In line with the three-year IMF program, the government is committed to a gradual transition to a more competitive exchange rate by 2022. In the financial sector, the National Bank of Ethiopia is transitioning from a direct monetary policy regime (which includes earmarked lending) to market-based monetary policies, including use of open-market operations and inflation targeting. Ongoing financial sector reforms, supported by the Bank, are expected to provide an alternative source of deficit financing. Establishment of a bonds market and capital markets[10] will provide long-term financing for the private sector and expand the scope for tax revenue mobilisation through increased private sector activity. The Bank's support on development of agro-industrial parks, financial sector and logistics reforms will help to increase exports and capital inflows. Debt management capacities in analysis, reporting and negotiations have been strengthened to improve transparency and negotiations with bilateral creditors on debt reprofiling. The Asset and Liability Management Company, established in 2020, is managing the residual debt of SoEs.

5. ***Low tax revenue mobilization capacity.*** While Ethiopia is implementing commendable tax revenue measures, tax-to-GDP ratio remains low. During 2015-2020, the tax-to-GDP ratio averaged about 14 percent, and the outturn for 2020 was only about 9.2 percent of GDP largely because of the COVID-19 pandemic. Tax yield has not grown at the same pace as GDP growth due to the low taxable capacity of the economy linked to limited economic diversification and a small private sector that is also predominantly engaged in informal activities. This constrained tax revenue mobilization capacity limits the fiscal space available to fund the counterpart funds required under the Bank policy.

[10] A draft bill is at Parliamentary level for review and adoption into law.

6. ***Increasing Debt servicing obligations reducing fiscal space to pay counterpart funds*. Public debt has increased steadily following debt relief in 2006.** Ethiopia's total (external and domestic) public and publicly guaranteed (PPG) debt has risen rapidly since 2012 because of the large-scale public investments in infrastructure. Ethiopia has been classified at high risk of external debt distress since 2017. In 2020, total PPG debt amounted to US$54.9 billion compared to US$53.8 billion in 2019, an increase of US$1.1 billion. However, as a share of GDP, total PPG debt reduced slightly to 56.7 percent in 2020 compared to 56.9 percent in 2019. Of the outstanding total debt in 2020, US$28.7 billion (29.5 percent of GDP) is external debt and US$26.2 billion (27.2 percent of GDP) is domestic debt. External debt increased in 2020, with US$3.1 billion loans being acquired in 2020 compared to US$2.8 billion in 2019, largely to finance COVID-19 related public expenditures. Debt stocks of the public and social administration and health sectors grew by about 30 percent each compared to 2019.

7. The IMF/World Bank debt sustainability analysis (DSA) published in 2020 estimated the present value of debt-to-exports and debt service-to-exports ratios at 247.6 percent and 24.6 percent respectively, against their respective thresholds of 180 percent and 15 percent. The DSA noted that while debt is sustainable, liquidity pressures to service external debt have increased, in part due to weak export performance. Limited progress towards higher value-added economic activities has constrained efforts to expand Ethiopia's sources of development finance. Consequently, increased import-intensive infrastructure investments amidst poor export performance have contributed to Ethiopia's high risk of public debt distress.

8. ***The government is taking measures to contain the debt burden including fiscal consolidation***, diversifying public financing sources to include public private partnerships, a moratorium on non-concessional borrowing and debt restructuring with bilateral creditors. Ongoing debt reprofiling negotiations with some bilateral creditors like China[11] are expected to bring the debt service-to-exports ratio slightly below the threshold by 2022. In addition, Ethiopia benefitted from the DSSI in June 2020, leading to temporary deferment of about US$473 million in debt service payments in 2020 and US$360 million in 2021. This is expected to provide short-term liquidity for COVID-19 related social spending. Longer-term actions are necessary to reduce repayment risks, especially as the country's US$1.0 billion Eurobond becomes due in 2024.

9. ***Scale up of public investments.*** Ethiopia has prioritized investments in key infrastructure projects in the energy, transport and agro-industrial parks to unlock productivity, reduce the high costs to doing business. Since 2005, the Government has prioritized infrastructure and pro-poor social spending, which accounted for an estimated 42.5 percent of the budget in 2020 and funded largely by external borrowing because of low tax revenue mobilisation.

10. ***Lack of fiscal space to pay for counterpart funds.*** Ethiopia's fiscal space is constrained by a combination of low tax revenue yield, increasing debt service obligations and significant scale up of public investment spending to achieve economic diversification. The gross financing needs have increased due to high infrastructure and social spending to meet the country's ambition of becoming a middle-income country by 2025 amidst weak domestic resource mobilization. The

[11] Ethiopia reprofiled a US$2.5 billion loan with China for the Addis Ababa-Djibouti railway in 2019/20.

overall fiscal deficit,[12] excluding grants, increased from 3.8 percent in 2018 to an estimated 5.6 percent of GDP in 2020. The overall deficit is projected at 4.5 percent of GDP in 2021 due to fiscal consolidation and gradual improvement in public revenue collection. Total savings as a share of GDP averaged 22.7 percent annually, of which public savings was only 2 percentage points of GDP. On the other hand, total investment averaged 37 percent of GDP, implying an average resource gap of about 14 percent annually during 2015-2020. With less non-debt creating resources to spend, the Government of Ethiopia has less cash to pay for counterpart funding and requires a waiver to contribute below the 10 percent threshold required by the Bank policy.

11. ***Country Financing Parameters***. The Bank's Country Financing Parameters (CFP) Note for Ethiopia done in 2019 underscored the country's strong socio-economic progress over the past two decades, driven by large public investments, and external borrowing as domestic resource mobilization slowed. Transition from low value-added production to higher value-added economic activity requires sustained investments in the enablers for transformative growth. Considering the country's high risk of public debt distress and nascent domestic resource mobilization, the CFP suggested the need for increased flexibility of Bank financing in the short- to medium-term. The Banks new Policy on Expenditure Eligibility for sovereign operation allows Bank Group Financing of more than 90 to up to 100 percent for ADF. Given the above justifications, the team suggests that the Bank be more flexible in supporting the Government of Ethiopia at this time by accepting its proposal of less than recommended policy requirement of 10 percent contribution as its counterpart funding for this project.

12. ***Summary and recommendation.*** By reducing the government's budget space, COVID-19 has made creation of the environment for private sector-led growth much more urgent. The Ten-Year Development Plan 2021-2030 launched in January 2021 promises to stimulate growth over the longer-term. This comes on top of the three-year Homegrown Economic Reform Agenda that aims to address current macroeconomic imbalances as well as structural and sectoral bottlenecks for private sector growth. The Government of Ethiopia has less fiscal space to support growth going forward, in part due to the COVID-19 pandemic and other shocks. This makes creation of the environment for private sector-led growth a more urgent imperative if the pre-COVID growth trajectory is to be maintained.

[12] Primary deficit plus debt service requirements.