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Quarterly Review of PROSEAD for Stakeholders and External Communication

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PROSEAD

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Quarterly Review of PROSEAD for Stakeholders and External Communication: March 2024

Introduction

This quarterly review of developments under PROSEAD (distributed in March 2024) is intended to disseminate information among Government of Ethiopia (GOE) stakeholders and development partners (DPs) to identify (1) contributions by respective parties, (2) progress made towards overarching project impact objectives, (3) challenges and gaps in relation to targets, and (4) key issues related to future implementation on which stakeholders can focus for improved results.

In this quarterly review report, we take a look at recently published industrial statistics by UNIDO and how Ethiopia performs relative to other countries around the world. This follows prior quarterly reports posted on the PROSEAD web site[1] that reviewed international trade statistics, Ethiopia's performance, and how this relates to Ethiopia's agro-industrial sector.

This quarterly report (and all quarterly reports) is intended to provide context for decision making, and to serve as critical information for GOE and DP stakeholders at quarterly DP coordination meetings and semi-annual PROSEAD Federal Steering Committee Meetings. These reports are intended to inform all GOE stakeholders, not just Ministry of Industry (MOI), to assist with inter-ministerial coordination and decision making, as many of the issues affecting PROSEAD implementation and larger development of the agro-industrial sector involve infrastructure investment (Ministry of Finance/MOF, Ethiopian Electric Utility), financial sector reform and development (National Bank of Ethiopia/NBE), agricultural supply/value chains (Ministry of Agriculture/MOA), labor market productivity and skills development (Ministry of Labor and Skills/MOLS), investment promotion (Ethiopian Investment Commission/EIC), and other organs of government. The synthesis report is also intended to elaborate on results, and to look ahead to where respective GOE stakeholders and DPs can potentially collaborate and strengthen partnerships.

UNIDO Industrial Statistics for Ethiopia and the World

UNIDO publishes annual industrial statistics[2]. Summary statistics for Ethiopia and its place in global rankings are presented in Table 1 below. One caveat is the variance in industry value added as a share of 2022 GDP, which differs substantially between UNIDO figures (6.9%) and those of the World Bank (22.7%)[3]. This variance is the result of differing definitions specifying data inclusion/exclusion, with the latter including construction and the former excluding it from industrial statistical measures. As construction is not manufacturing per se, although it relies on manufactured materials, manufacturing shares of value added are somewhat similar in both data sources, with UNIDO at 5.6% and the World Bank at 4.2%. Therefore, despite this one major variance related to broader industrial value added as a share of total GDP, the discussion of manufacturing

[1] See www.iaip.gov.et
[2] See *International Yearbook of Industrial Statistics*, Edition 2023, UNIDO.
[3] See https://databank.worldbank.org/source/world-development-indicators

issues, value added as a share of GDP, and how this relates to food and beverage processing benefits from the dissemination of annual UNIDO data.

The table shows that Ethiopia's (1) Manufacturing Value Added (MVA) experienced comparatively high growth rates in 2022; (2) medium-to-high and high-technology manufactures (MHT) as a share of manufacturing exports were about at global mid-points and averages as a share of total; and (3) while negative, the manufacturing trade balance was broadly in line with global norms as a share of GDP. In fact, a deeper look at these indicators shows (1) comparatively high growth rates are relative to a low base; (2) MHT exports are a small share of total exports; and (3) the trade deficit has been partly suppressed by the lack of foreign exchange which reduces investment needed for enhanced productivity and competitiveness. The other indicators more broadly reflect Ethiopia's manufacturing and industrial sector weaknesses, all of which are reflected in its low ranking in UNIDO's Competitive Industry Performance (CIP) index where Ethiopia ranks 143rd in a sample of 152 jurisdictions[4].

Table 1: Ethiopia and Global Industrial Indicators

	MVA per capita	MVA growth rate	MVA share in GDP	MHT share in MVA	Industry value added share in GDP	Manufact'g share in exports	MHT share in manufact'g exports	Manufact'g trade balance	Manufact'g share in employment	Manufact'g CO_2 intensity	CIP Index
Year	2022	2022	2022	2020	2022	2022	2022	2021	2022	2020	2021
Unit	*(2015 US$)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(% GDP)*	*(%)*	*(kg/US$)*	*(rank)*
Ethiopia	**46**	**7.6**	**5.6**	**16.1**	**6.9**	**16.6**	**35.2**	**-12.7**	**3.2**	**1.04**	**143**
Global mean	2,170	3.6	11.4	25.1	19.3	58.0	37.4	-13.9	9.9	0.52	77
Global median	550	3.5	10.4	21.8	17.3	62.2	34.7	-11.8	9.4	0.29	77
Ethiopia global rank	**131**	**19**	**109**	**68**	**126**	**126**	**69**	**72**	**121**	**19***	**143**

***Note*: *** Ethiopia's statistically high ranking of CO_2 emissions is a negative and reflects the high level per unit of output; other rankings can be interpreted as higher is better (e.g., 19th in MVA growth rate) and lower is worse (e.g., 131st in MVA per capita)

***Source*:** UNIDO

Industry Value Added

The UNIDO indicators have one measure of industry value added, that as a share of 2022 GDP. Industry value added as defined by UNIDO includes mining and quarrying, manufacturing and utilities. Therefore, the UNIDO definition for industry is composed of more than manufacturing measures. The indicators show that Ethiopia's industrial share of GDP was 6.9%, well below half of the global mean (19.3%) and median (17.3%). This places Ethiopia 126th in a sample of 212 jurisdictions[5], a comparatively low score. (The higher figure for industrial value

[4] Other indicators show a count of as high as 212 jurisdictions for which data are available. The CIP index excludes 60 jurisdictions due to insufficient data.
[5] The sample is mainly composed of countries, but also includes territories and other non-states.

added from the World Bank has been noted, and is due to the World Bank's inclusion of construction in its measures, while UNIDO does not include construction based on its definition.)

Manufacturing Value Added

There are three MVA indicators that relate to per capita value, growth rates and share of GDP. Food and beverage processing has been estimated to account for 34%-50% of manufacturing by differing sources[6], although these are based on pre-COVID data and/or were made before US trade sanctions (via the African Growth and Opportunity Act, or AGOA[7]) were imposed on Ethiopia due to the war in Tigray. Moreover, the shortage of foreign exchange has made it difficult for textile and leather processors to import needed chemicals, dyes and finishings, resulting in a declining share of value added. The decline in non-food manufacturing (e.g., textiles, leather) would suggest the 34%-50% estimates are low as pharmaceuticals, cement and other manufacturing activities have not sufficiently increased to offset declines in textile and leather processing as a share of manufacturing. By extension, this suggests food and beverage processing play a greater role in overall manufacturing. Therefore, the indicators presented for MVA are considered to be positively correlated with the general status of the agro-industrial sector in Ethiopia.

MVA per capita is low, at USD 46. This is ranked 131st in the world, and compares with a global average of USD 2,170 and a median (mid-point in the distribution) of USD 550. While the average is skewed by more advanced countries, the global median is still 12 times Ethiopia's per capita MVA. This reflects low levels of labor productivity.

As noted above, the MVA growth rate of 7.6% in 2022 was positive, at more than twice the global average and median. This placed Ethiopia 19th in the world, a positive indicator. However, growth rates are measured against prior indicators of MVA, and are typically high statistically when the denominator or base measure is low. Therefore, while a positive development, the real test for Ethiopia is to sustain these growth rates for long periods and to gradually increase MVA per capita so that incomes and competitiveness increase (along with food security and exports). With most manufacturing estimated to be based on food and beverage processing, this is where PROSEAD and related agro-industrial development efforts make their contribution to the economy.

[6] The sources are UNIDO and the US International Trade Administration. Refer to 3Q and 4Q PROSEAD Quarterly Reviews on www.iaip.gov.et

[7] The African Growth and Opportunity Act (AGOA) is a United States Trade Act, enacted on 18 May 2000. The legislation enhances market access to the US for qualifying Sub-Saharan African (SSA) countries on approximately 6,800 tariff lines in the US tariff schedule, which allows US importers to clear such goods - sourced from eligible African countries duty-free under AGOA. Ethiopia was designated an 'AGOA beneficiary' on 2 October 2000. On 2 August 2001, AGOA benefits were also extended to Ethiopia's textile sector following the successful implementation of an apparel 'visa system' required for managing adherence with AGOA's Rules of Origin provisions. Ethiopia was removed from the list of qualifying SSA countries at the beginning of 2022 as a result of alleged human rights violations in the war in Tigray. See https://agoa.info/about-agoa.html

The third MVA indicator is as a share of GDP. Here, Ethiopia shows 5.6%, which is low by global standards. Ethiopia is ranked 109th, with MVA as a share of GDP equivalent to slightly above half global mean and median measures. Therefore, a reasonable strategic target for GOE is to strive to double MVA in the economy, which would then translate into agro-industry roughly accounting for about 9% of overall GDP[8] in a static model.

Manufacturing High Technology Goods

As noted, UNIDO's MHT indicator reflects the share of medium-to-high and high-technology manufactures as a share of MVA and manufacturing exports. The limitation of this measure is that it does not capture USD value to reflect global market share. Therefore, its usefulness as an indicator is limited in terms of economic impact. For example, if MHT share is high but total value is low, the impact of MHT on the overall economy is limited. This is the case in Ethiopia, as reflected in low MVA per capita and correspondingly low export revenues.

Despite these limitations, Ethiopia's MHT as a share of 2020 MVA was a respectable 17%. This is about two thirds of global mean (25%) and median (22%) indicators. This put Ethiopia at 68th globally, although it is unknown whether Ethiopia has been able to sustain such a ranking in recent years.

Likewise, MHT share of 2022 manufacturing exports was a respectable 35%. This is consistent with global mean (37%) and median (35%) indicators, putting Ethiopia at 68th globally. However, with Ethiopia's manufacturing share of total exports being low (see discussion below), the MHT share was only about 6% of 2022 total exports.

Manufacturing Exports and Trade

Manufacturing exports as a share of total exports were only 16.6% in 2022, well below global norms. Ethiopia's low share of manufacturing exports compares with global averages of 58% and median indicators of 62%. Correspondingly, this relegates Ethiopia to 126th on a global basis.

This point is relevant for the discussion above regarding MHT share. At 16.6% of total exports, MHT share would then translate into about 6% of total 2022 exports[9]. This is relevant to Ethiopia's trade balance, as this indicator suggests only a small share of total exports are higher value. By contrast, most export revenues derive from low-value commodity and raw materials exports.

Despite these challenges, Ethiopia's manufacturing trade balance approximates -12.7%, which is in line with global norms. The mean is -13.9% and the median is -11.8%. Therefore, Ethiopia is in between global averages and mid-points, resulting in a ranking of 72nd. However, the trade balance partly reflects the decline in needed imports of machinery, equipment and other productivity-enhancing imports required for greater productivity and competitiveness. This is a vicious cycle, as Ethiopia's shortage of foreign exchange constrains needed imports, resulting in

[8] A doubling of MVA-to-GDP would = 11.2%. At an estimated 80% of manufacturing, agro-industry would approximate 9% (0.8 x .112). At an estimated 70% of manufacturing, agro-industry would approximate 8% (0.7 x .112). At an estimated 60% of manufacturing, agro-industry would approximate 7% (0.6 x .112). These estimates assume no major changes in the distribution of manufacturing value added (e.g., textiles, leather, pharmaceuticals) for a protracted period.
[9] Ethiopia's MHT share of manufacturing exports is 35.2%, and manufacturing exports to total exports are 16.6%. Therefore, 0.35 x 0.166 ≈ 0.058.

continued low value added which perpetuates the cycle of low MVA per capita, limited earnings from manufacturing exports, limited investment which constrains volume, and a general lack of global competitiveness.

Likewise, as about 80% of exports are food-based[10], the data suggest that Ethiopia's exports are generally low in value added. To the extent there is value added in coffee exports, Ethiopia's main export commodity at roughly 25%-35% of total export earnings[11], these volumes and sales declined in 2023[12]. Therefore, subsequent MVA figures in relation to the trade balance are not expected to show improvement in the near term.

Manufacturing Employment

Ethiopia's manufacturing sector employs only about 3.2% of the labor force, which is low by global standards and places Ethiopia 121st in the world in 2022. At 3.2%, Ethiopia's employment in manufacturing is about one third of global norms, which show an average of 9.9% and a mid-point of 9.4%. Therefore, not only is MVA per capita low, but the volume of manufacturing employees is low. The combination of volume and value translates into a very small manufacturing footprint in Ethiopia.

Environmental Indicators for Manufacturing Sector

Despite its small manufacturing footprint and low level of aggregate carbon emissions (due to low levels of industrialization), Ethiopia's carbon footprint is comparatively high on a per unit basis of output. Manufacturing CO_2 emissions intensity, as measured by kilograms per USD unit of output, show 1.04 kilograms of CO_2 per USD of output. This is double global averages of 0.52 kilograms and 3-4 times the global mid-point of 0.29 kilograms. This means Ethiopia has the 19th highest (worst) per unit performance in the world. While Ethiopia's low level of manufacturing and industrial output makes its contribution to carbon emissions much lower than the worst performers[13], the indicator shows its facilities are highly polluting relative to output.

In the future, clean renewable power from hydro and other sources is expected to improve Ethiopia's profile. This will require remediation work at existing facilities and investment in improved technologies and cleaner processes at new facilities.

[10] See 3Q and 4Q PROSEAD Quarterly Reviews on www.iaip.gov.et

[11] Coffee accounts for about 30%-35% of total export earnings (see https://gain.fas.usda.gov/#/search). Other sources put the share of total exports at 24%, which may reflect growth in other export categories like hydropower to neighboring countries (see https://www.ena.et/web/eng/w/eng_3045840).

[12] See https://www.ena.et/web/eng/w/eng_3045840

[13] These are mainly oil and gas producers in the Middle East and Russia, plus major coal-burning economies like India, South Africa and Nepal. China and USA are also major emitters due to industrial volumes.

Relation of Industrial Statistics to High-level Impact and Results in Agro-industry

Prior quarterly reports have discussed challenges related to data. Notwithstanding these challenges, there are sufficient data to estimate how performance relates to PROSEAD objectives and outcomes.

As noted, agro-industry is estimated to approximate a majority of manufacturing value added. Therefore, developments noted above are largely a reflection of agro-industry in Ethiopia. This translates into the following observations:

- Ethiopia's industrial share of GDP was 6.9% in 2022, and this is composed of manufacturing, mining & quarrying, and power/utilities. Manufacturing accounted for about two thirds of industrial output, with manufacturing value added at about 4.2% of GDP[14]. If agro-industry accounts for 80% of this, then agro-industry accounts for roughly 3.4% of GDP. This well below the PROSEAD target of 6.7% set for 2025[15]. (See below.)
- MVA per capita is low, at USD 46. This reflects high levels of manual processing (labor intensity) resulting in low levels of labor productivity, mainly attributable to the lack of investment in capital equipment in the food and beverage processing sector.
- The MVA growth rate of 7.6% in 2022 was positive, at more than twice the global average and median. This is positive, albeit measured against a small base. Increased primary sector agricultural output as reported by ATI may be contributing to growth in food and beverage processing value added through the supply of added raw materials.
- MVA as a share of GDP is reported by UNIDO at 5.6%, a figure that is much higher than that presented by the World Bank in its WDI database[16]. If the UNIDO figure is accurate, agro-industry at 60% of total MVA contributes 3.4% to Ethiopian GDP. If at 80% of MVA, the contribution to GDP would be 4.5%, which is closer to PROSEAD targets of 6.7% (for 2025). However, even at 100% of MVA (which it is not), agro-industry lags PROSEAD targets for 2025.
- Manufacturing exports as a share of total exports were only 16.6% in 2022, well below global norms. A significant share of Ethiopia's exports derives from the coffee sector. However, the Ethiopian Coffee and Tea Authority reported a decline in coffee exports in 2023[17]. Combined with reported declines in livestock (increased share of unprocessed livestock sales and reduced processing/leather products share), the level of food processing value added is low. Therefore, for manufacturing, this likely means less in the way of processed goods for export, adding to challenges of foreign currency earnings.
- Ethiopia's manufacturing trade balance approximates -12.7%, which is in line with global norms. However, as noted, the trade balance partly reflects the decline in needed imports of machinery, equipment and other productivity-enhancing imports required for greater productivity and competitiveness. This applies to integrated agro-industrial parks (IAIPs) and the broader food and beverage processing

[14] See World Development Indicators, https://databank.worldbank.org/source/world-development-indicators#
[15] Even lower estimates of agro-industrial share of industry (e.g., 60%-70%) mean performance lags 2025 PROSEAD targets even more, at 2.5%-3.0%.
[16] See World Development Indicators, https://databank.worldbank.org/source/world-development-indicators#
[17] See https://www.ena.et/web/eng/w/eng_3045840

sector, and is reflected in the limited incomes of those active in the sector. This also has affected procurement of needed inputs (e.g., fertilizer, irrigation equipment) that impact productivity in the primary sector and raw materials flows to the industrial sector.

- Ethiopia's manufacturing sector employs only about 3.2% of the labor force, which is low by global standards. Therefore, not only is MVA per capita low, but the volume of manufacturing employees is low. This largely reflects a shortage of investment in agro-industry, reducing employment prospects and job creation in the sector.

The combined activities of the PROSEAD project are expected to contribute to **inclusive economic opportunities expanded through Ethiopia's transition from an agricultural economy to a more industrial one**. Based on results, agro-industry may be increasing as a share of GDP, which is positive, although data are inadequate to draw firm conclusions. Even if there is an increase, the level of agro-industry in the economy is well below PROSEAD targets. Therefore, while agriculture has made progress, the comparative role of agro-industry has not.

There have been PROSEAD-specific job gains linked to contract farming and facilities construction. An estimated 1,897 direct jobs for factory workers (of whom 609 are female)[18] and about 41,000 indirect jobs (mainly outreach to smallholder farmers (SHFs) organized by 27 cooperatives, of which about 20% are female) were sustained during the quarter by PROSEAD activities. These were mainly found in the avocado market, with Sunvado providing 25,000 indirect jobs and YBM providing another 13,000. The remaining 3,000 SHF jobs were supplied by Richland (2,000) and Douley (1,000). The 41,000 is lower than the annualized figure of 220,000 for 2023 (as reported in the last Quarterly Review), and reflects seasonality.

More broadly, results have not met original targets due to challenges in the economic and business environment. Results show a relatively small number of direct jobs created, and significant gaps relative to targets, particularly in terms of the number of active investors in the IAIPs.

Discussion of PROSEAD Indicators, Targets and Results

PROSEAD O1 focuses on agro-industrial growth as a percent of GDP, with targets and results measured against a 2015 baseline figure of 6.5%. PROSEAD targets for agriculture and allied industries were to contribute 8.0% to GDP by 2023, and for agro-processing alone to account for 6.7% of GDP by 2025. Figures above from World Bank and UNIDO suggest the figure is now 3.4%-4.5% of GDP.

PROSEAD O2 focuses on agricultural production of the targeted value chains by specific agro-industries. Targets and results are measured against 2017 baseline figures for national production. Targets are for 3% annual y-o-y growth in output. Results reported earlier by ATI based on 2022/23 production season harvest data were presented in the 3Q 2023 PROSEAD report and referenced in the 4Q 2023 PROSEAD report[19]. Despite increased output in most categories, industrialization and higher value-added food and beverage processing have not kept up with opportunities resulting from this increased output.

[18] These data are from February 2024 and represent direct employment by park management and the companies operating in the parks.
[19] See www.iaip.et.gov

More specific results to be achieved under the project are **decent employment and incomes increased for rural Ethiopians, particularly youth and women, in four environmentally sustainable agro-industrial parks and their agricultural production zones**.

PROSEAD SO1 focuses on Government, donor and private sector investments related to the four planned IAIPs and their contribution to agro-processing and value chain development. Results show that leveraged funds approximated 413% of 2017 levels as of March 2024[20], reflecting achievement of the target of 400% set for 2023. By component[21]:

- The greatest allocation has been USD 139 million for infrastructure in the parks and Rural Transformation Centers (RTCs) (Component 1);
- This has been followed by USD 108 million in support for supply chain development and agricultural production (Component 3), USD 52 million for skills development (Component 4), USD 43 million for access to finance (Component 2), and USD 10 million for governance and project coordination (Component 5).

Despite exceeding leverage targets, there is a major gap relative to anticipated private sector investment in the parks. This is the most crucial gap in PROSEAD implementation and will need to be corrected for PROSEAD to achieve objectives and targets. In the meantime, because there has been so little interest from foreign investors, GOE has crafted an import substitution strategy to mobilize resources and potential in agriculture and agro-industry. Therefore, many of PROSEAD's current and future activities will focus on improving the business environment for increased domestic private sector investment, and strengthening domestic capabilities to boost opportunities and food security. Strengthening in these areas is expected to improve prospects for foreign investors over time.

PROSEAD SO2 focuses on agriculture and allied industries employment in the regions, with a focus on gender (and youth). The target for this objective is focused on bringing down the 2015 unemployment rate from 4.1% to 3.5% in 2020, with a target of 3.2% for women. While results were disrupted by COVID and other factors, PROSEAD has helped to reduce the unemployment rate through the creation of about 220,000 indirect jobs in 2023 (and 41,000 in the first quarter of 2024), of which about 20% were estimated to be for female farmers. However, this does not directly explain the impact on declining unemployment rates. In fact, other data sources based on modeled ILO estimates show total employment in agriculture for both males and females declined on a y-o-y basis from 2017-2019[22]. Therefore, it is unclear if the general unemployment rate declined as labor participation rates and other *current* labor market data are not available.

A summary of quarterly progress and developments by PROSEAD Component is presented below.

[20] Numerator = USD 600,952,936 for parks plus USD 146,192,698 in investment from private enterprises in parks plus USD 351,929,000 in donor financing. Denominator = baseline 2017 USD 266 million. Therefore, USD 1,099,074,634/USD 266,000,000 ≈ 4.13 times.
[21] A pie chart with these distributions was presented in the prior *Quarterly Review*, December 2023.
[22] See World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

Component 1: Park Infrastructure and Capacity

The African Development Bank (AfDB) is the main development partner engaged in the support of park infrastructure development. The Bank's work includes involvement with UNIDO supporting capacity enhancement and training for the Ministry of Industry, regional agro-industrial park management, and allied sectors. AfDB works closely with the MOI on project implementation, and has agreements with the Ministry of Finance.

The key results to be achieved in Component 1 are that **agro-industrial parks infrastructure and operations are made socially valuable and environmentally compliant, and public infrastructure needs for intermediate processing are met**. Specific PROSEAD results show that major investment has been made in at least three of the four IAIPs, and that most basic infrastructure is established in these three operating parks. Remaining investments in power sub-stations and waste management are expected to be completed by September 2024 at the three operating IAIPs, although limited access to foreign exchange represents a continued risk to import capacity needed for building and installation. Therefore, it is currently unknown if all construction will be completed by then or will take longer.

Regional instability also poses a risk, such as in Amhara at the Bure park, and at the Motta and Amanuel RTCs. More pessimistic scenarios forecast another two years will be needed to finalize all infrastructure investments.

As of March 2024, the following represent highlights of infrastructure investment enabled by AfDB:

- 46% of functional waste management plants developed
    - Meki RTC at 95%, with only testing & commissioning remaining
    - Yirgalem Park at 89%
    - Amanuel and Motta RTCs Contractors' Bid Evaluations underway
- 37% of functional potable water systems developed
    - Bure park at 83%, with only testing and commissioning remaining
    - Yirgalem park at 65%
    - Meki RTC at 1%
- Critical access roads have been "reprioritized", and there are no figures reported.

As for institutional capacity building, there were no changes from the prior quarter. Compliance reports from the prior quarter show that 310 MOI and Industrial Park Development Corporation (IPDC) technical management teams have received training (of which 35 females). This is equivalent to 78% of the target of 400. Other indicators include:

- 29% of cooperatives/unions/farmer-based organizations have been linked to IAIPs/RTCs, equivalent to two FCUs and 70 cooperatives
    - This is short of the 50% target, but represents forward progress
- 21 relevant institutions have been supported, which exceeds the target of 19

    - Institutions include MOI, EIC, ARIPDC, ORIPDC, SRIPDC, EIC, AIC, OIC, SIC, ORBoA, ARBoA, SRBoA, EED, and MOA
- 49% of farmers trained in various VCD packages (e.g., GAP, aggregation, storage and handling, quality and conformity)
    - This is equivalent to 220,618, representing a sizeable increase from 170,418 in August 2023
    - The figure is below the target of 450,000, but the target is expected to be reached by year-end 2024 or early 2025
- 504 of the targeted 6,000 students who benefit from training and internships with industry, or 8% of target

Therefore, progress is being made in relation to the effort to ensure the parks are socially valuable, environmentally compliant and effective for intermediate processing. However, activities stalled in the last quarter.

PROSEAD Component 1 Indicators, Targets and Results

	Indicators	Baselines	Targets	Results
O1.1	The relative value of government investment in social and environmental infrastructure	Updated related value by the AfDB mission (2018) NB estimated at US $200m in 2015 for the 4 pilot IAIPs[23]	PROSEAD public sector fund facility of €10 million for government to lever at least 400% (2023)	Cumulative GOE investment in IAIPs valued at nearly ETB 33 billion (≈ USD 601 million)
O1.2	Status of the report on assessment of ESS compliance of infrastructures	None	Report is approved after compliance inspection	Reports on Social and Environmental Sustainability are produced and submitted to the Bank on a quarterly and annual basis. No change from prior quarter.
O1.3	Number of IPDC technical management team members trained by this Action on Agro-Industrial operation (disaggregated by sex)	None	400	310 MOI and IPDC and affiliated staff trained (35% female). No change from prior quarter.

Key challenges and issues identified by AfDB include:

- Delays in the construction of the waste water treatment plant at Yirgalem park.

[23] This amount is the total amount GOE invested for all infrastructure in the four parks. The indicator is on the relative value invested specific to environmentally and socially sustainable infrastructure (share of total). Work is ongoing to refine this baseline indicator.

- Delays in testing and commissioning of the waste water treatment plant at Meki RTC.
- Slow budget absorption capacities of regional Project Implementation Units.
- Lack of anchor investors in the IAIPs.
- Delays in the procurement of TVET workshops.
- Security issues in Amhara and Oromia regions.
- Challenges in fully operationalizing RTCs.

Component 2: Access to Finance

The International Fund for Agricultural Development (IFAD) is the main PROSEAD development partner engaged in access to finance. It implements its flagship program, the Rural Financial Intermediation Programme III, through the Development Bank of Ethiopia (DBE) with the National Bank of Ethiopia (NBE), the Ethiopian Cooperative Commission (ECC), and Association of Ethiopian Microfinance Institutions (AEMFI) as key implementing partners.

The key results to be achieved in Component 2 are that **the capacity and financial resources of MFIs and LFIs to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the IAIPs are increased**. Specific to PROSEAD[24], results show that:

- A total of USD 7.3 million has been disbursed to farmers in the catchment areas, which is 27% of the target (USD 26.8 million).
- 11,656 farmers had been supported with financing as of August 2023. There have been no changes or additions since. According to IFAD, there were no new disbursements from RUFIP III in the last two quarters in the relevant catchment areas. This will change in the upcoming two quarters.
- More than 50% of the beneficiaries were female. Therefore, the project has succeeded in increasing numbers of beneficiaries in 2023 and its proportion of support to females.

As reported in prior quarterly reports, the August and November 2023 figures represent a significant percentage increase from June 2022 (7,377). This is a positive trend that has flattened in the last two quarters. The figures represent a small share of the total number of farmers in the relevant catchment areas. However, more positively, loan totals represent nearly 1,200 loans to smallholder farmers per operating company in the three IAIPs. Such a number should help with added raw materials to companies operating in the parks.

Overall levels of farmers receiving financing in the park catchment areas is less than 2% of the original 2017 baseline total of 714,000. This target has since be revised to 285,000, resulting in a 4% ratio[25]. Limited supplies of loanable funds despite increases in 2023[26], pricing disincentives (low

[24] IFAD's activities are nationwide, with PROSEAD included as one part of IFAD's overall effort.
[25] 11,656/285,000 ≈ 4.1%.
[26] DBE reported a USD 1.5 million increase in available loanable funds earlier in 2023.

prices received by farmers) for output (often due to quality issues that reduce purchases or prices for sold products), and weak value chain linkages have added to challenges in IAIP catchment areas. The newly adopted contract farming framework may help with some of these issues moving forward, and this new framework is currently being tested in the catchment areas (see Component 3 below).

Other issues related to financial sector limitations, adverse effects on supply/value chains, and low investment levels in the parks have been described in prior reports[27].

PROSEAD Component 2 Indicators, Targets and Results				
	Indicators	**Baselines**	**Targets**	**Results**
O2.1	Increase N° of farmers households receiving finance products and services in the park catchment areas supported by the Project	At the RUFIP III formulation stage based on the Phase II assessed performance in the project area (2017: 714,000 clients nationwide)	285,000	11,656 (vs. 7,377 in 2Q) reached in IAIPs as of February 2024, unchanged from prior two quarters as there were no new disbursements. Results = 4% of target.
O2.2	Increase % of Females in the indicator above receiving products and services supported by the Project	As above (2017: 285,000 female clients, or 40%)	114,240	Female: 5,795 in August and November 2023 (vs. 3,743 in 2Q). No change from prior quarter as there were no new disbursements. Results = 5% of target.
O2.3	Performance of MFIs and LFIs loan portfolio for economic operators operating in the value chain in the parks	At the AFD support formulation stage based on loan portfolio assessment	TBD	Nothing reported as no new disbursements. Loan amounts disbursed to clients in the catchment area reported to be USD 4.762M (ETB 195M) in April 2023, USD 7.0M in June 2023, and USD 7.3M August and November 2023.

IFAD notes the key challenge is:

- The lack of sufficient loanable funds due to the gap between credit demand from lending institutions on the one hand, and available loanable funds in RUFIP III on the other.

[27] See *4Q 2023 PROSEAD Quarterly Review*, December 2023 at www.iaip.gov.et

More positively, IFAD has reported progress in negotiations with the European Investment Bank (EIB) to finalize formalities that would help with a more continuous flow of funds to the sector. The EIB has contracted FAO to assess the Development Bank of Ethiopia's business model and due diligence capacity, all of which is a potential prelude to future resource availability coordinated by IFAD to increase access to finance for smallholder farmers and others in agriculture and agro-industry.

Component 3: Agricultural Production and Value Chain Development

The Agricultural Transformation Institute (ATI) is the main development partner engaged in agricultural production support and value chain development. ATI works closely with and reports to the Parliament and Ministry of Agriculture.

ATI's core focus is on Agricultural Commercialization Centers (ACC), with PROSEAD embedded as a small share of ATI's total activities. Therefore, as with IFAD, PROSEAD information is embedded as part of a larger nationwide effort.

The key results to be achieved in Component 3 are that **the capacities of farmers' associations and rural agribusiness to raise their productivity and facilitate their access to agro-processing markets are improved**.

ATI reported that there has been an increase in production in six major food categories, reflecting increased production volume. This includes a 12% increase in avocado, 3% in tomatoes, 30% in wheat, 108% in maize, 30% in malt barley, and 43% in soybean. This represents positive overall performance that benefited all three catchment areas where the parks and RTCs are located.

Much of this has to do with increases in contract farming agreements between producers and buyers, as significant increases were registered in all major commodities apart from avocado. The largest contract farming increases by commodity were in soybean (154% in Amhara) and malt barley (136% in Oromia), followed by tomatoes (84% in Sidama, but only 7% in Amhara), and wheat (42% in Oromia). There was a 38% decrease in avocado supply arranged through contract agreements between farmers and processors in Yirgalem IAIP (Sidama Region), despite a 27% increase in production the previous year.

Specific to the IAIPs and catchment areas:

- Sunvado and YBM benefited from increases in avocado output in Yirgalem park despite a decline in contract farming-specific deliveries[28];
- Richland benefited from soybean production in Bure park;
- Other buyers in Amhara also benefited from increased soybean production, such as Fevela, local processors, exporters, and the Ethiopian Commodity Exchange;
- RTCs and the private sector operating in Oromia (with potential future linkages to Bulbula park) benefited from sales of:
    - avocado, to traders and other exporters;

[28] The 12% increase in overall avocado production helped to offset the 38% decline in raw materials flows via contract farming arrangements.

- wheat, to millers, Consumer Cooperatives Unions, and the Disaster and Risk Management Commission;
- malt barley, to malt barley factories GMB, AMB, Souflet, and Boort MB.

Other PROSEAD-related results show that four ACCs and 4,606 Farmers' Production Clusters (FPCs) are targeted for support in Bure and Yirgalem IAIPs, with ATI having worked with two of four ACCs and 849 FPCs as of March 2024. This represents half of ACCs and 25% of total FPCs in the specified regions[29]. The number of FPCs with which ATI worked more than doubled during the quarter, with the prior total of FPCs at 408.

Average targeted female and youth participation in the clusters and FPCs linked with IAIPs/RTCs is 8% women and 10% youth. Results showed 15% female participation and 11% youth participation, thereby exceeding targets, with particular strength in the Yirgalem IAIP catchment areas.

Farmers' increased production (and improved productivity) have helped to increase average incomes of participating farmers by 3.5% for male and 1.6% for female smallholder farmer participants. The latter represented a modest increase from 1.5% in the prior quarter. These indicators have shown steady increases each quarter, and now are just about at targets set at 3.6% for male farmers and slightly higher than the 1.5% target for female farmers.

These results show progress towards PROSEAD objectives, and there is hope for 2024 that the new contract farming framework will help to further increase SHF incomes. As noted, apart from avocado contracting in Sidama, most major commodities are showing increased volume under contract farming arrangements.

The gender differential for incomes is an area where PROSEAD will want to see improvement in the form of rising incomes for all producers, and with a narrowing or elimination of gender-based income improvement gaps. On a more positive note, incomes have increased for both male and female farmers, which is positive across the board. Increases have been recorded over several prior quarters, suggesting a positive trend in nominal terms[30].

PROSEAD will also want to see an increase in the number of clusters to enable better outreach to farmers for quality control, as well as income and employment opportunities and gains for women and youth resulting from these cluster formations.

[29] The 25% figure reflects the proportion of FPCs with direct linkage to operational agro-industries within IAIPs against the project target. However, ATI has more FPCs (4,606) than the target set (3,400). Linkage to IAIP processors has been limited due to the small number of operational processors in the parks.
[30] Income gains are not necessarily keeping up with rising prices and inflation rates. Therefore, nominal income gains cannot be automatically equated with purchasing power gains by SHFs.

PROSEAD Component 3 Indicators, Targets and Results				
	Indicators	**Baselines**	**Targets**	**Results**
O3	Increase of agricultural production in the targeted value chains by the agro-industries (t/yr)	None	+ 3% per annum	Avocado (12%), tomato (3%), Wheat (30%), Maize (108%), Malt barley (30%), Soybean (43%)
O3.1	Number of clusters supported entering into the agro-industrial value chains & levels of women/youth inclusiveness	Number of clusters supported =0 (2018)	4 ACCs and 3,400 FPCs	2 ACCs and 849 FPCs, therefore 50% of ACCs and 25% of producer unions
O3.2	% of women and youth participation in the clusters and FPCs linked with IAIPs/RTCs (both women- and youth-led FPCs and proportion of women and youth in all the FPCs)	TBD	8% Women and 10% Youth[31]	15% Women and 11% Youth, therefore results have exceeded targets[32]
O3.3	Average increase earning to farmer on value chains subject to a crop delivery contract, including gender disaggregation[33]	TBD	3.6% for males and 1.5% for females	4.0% for males (vs. 3.5% in Q4) and 1.8% for female (vs. 1.5% female in Q4); therefore, largely exceeding target in both categories, and both showing steady improvement from prior quarters.

[31] Previous O3.1 targets were "Number of clusters supported = 20 per region (2023)" and "Cluster inclusiveness >30% (2023)". One out of four cluster leaders/committee members is female on a mandatory basis, indicating 25% Cluster Inclusiveness in decision making responsibilities.

[32] This figure varies from region to region depending on the production season, and the security situation of the respective regions. Results have typically been skewed by results in Yirgalem/Sidama where there has been comparative stability.

[33] Calculated from farmers' incomes who are part of contract farming platform.

Key challenges and issues that remain include:

- Difficulties sorting out contract farming arrangements in Sidama regarding avocado deliveries to firms processing in Yirgalem IAIP. (The problem is due to the agreement covering a three-year period at prices that were specified before ratification of the contract farming proclamation. Producers believe the prices received from Sunvado and YBM are too low, and the processors claim signed agreements are binding even if they pre-date the contract farming proclamation.)
- General levels of instability in Amhara in particular (which interferes with progress in soybean and general development of Bure park and related catchment areas), but also in Oromia which slows development of Bulbula park and linkages across commodity producers and processors in the relevant catchment areas.

Opportunities for collaboration with other development partners to address these issues and challenges include building on current initiatives with AICS, GIZ, UNIDO and others that will focus on enhanced food safety (and therefore raw materials quality), labor productivity and skills development (to increase output and processing efficiency, with beneficial effects on value chain consolidation), and network development involving collection centres, RTCs and linkage to agro-industrial parks (to enhance the flow of quality output through RTCs to processors in the agro-industrial parks). Closer coordination with IFAD on lending flows in relevant catchment areas may also help to increase ACC and FPC output and farmer income figures. Resolution of any outstanding contract farming issues and the entry of new buyers are likewise expected to increase SHF incomes.

Component 4: Labor Market Skills Development

The German Development Cooperation Agency (GIZ) is the main development partner engaged in technical and soft skills development for youth and women in the catchment areas of the IAIPs[34]. GIZ works closely with the Ministry of Labor and Skills and Ministry of Industry/Regional IPDCs on its activities.

The key results to be achieved in Component 4 are **the skills of youth and women in the parks and their catchment areas are enhanced and decent employment conditions are improved**.

Component 4 has succeeded in increasing skills training (both technical and soft skills) for job seekers. Specific PROSEAD results show Component 4 has been able to enroll 791 students (82% female) in Cooperative Training Programmes (long-term training), enroll 7,666 individuals in employment-related training (short-term training), and create three agro-industry-wide training centers. The latter two figures are unchanged

[34] The German Federal Ministry for Economic Cooperation and Development (BMZ), with co-funding from the European Union (EU), commissioned the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) GmbH to enhance the skills of young people in the catchment areas under Component 4 of PROSEAD.

from the prior quarter, but the first indicator represents a considerable increase from 433, and is on target to meet or exceed the target of 960 beneficiaries for long-term training (35%-45% female).

In the case of short-term training (unchanged from the last two quarters), the accomplished figure approximates 85% of target (9,000), and females account for 51% of beneficiaries. This training has included training of 197 trainers (40 master trainers) in basic digital skills across four polytechnic colleges to cascade training to students.

Additional training has proceeded in partnership with companies to train managers and employees in the decent work agenda. Two rounds of decent work training sessions have now been conducted in Yirgalem IAIP, and in Dilla and Shashemene. This training has reached 103 managers (of which 10 female), thereby exceeding the original target of 100 manager beneficiaries. Likewise, training has benefited 125 workers (of which 29 female), 25% of target.

In relation to MSMEs, students or recent graduates benefitting from support by incubators or Business Development Services and employment-relevant training/services, GIZ has supported training of 928 beneficiaries, of which half have been female. This represents 66% of the target of 1,400 beneficiaries.

The project has ventured into green TVET, and as a result, a new measure titled “green entrepreneurship and innovation training” has been integrated into the ongoing effort to promote self-employment targeted toward TVET students. Teachers Training and Learning Materials on applied entrepreneurship have been adapted to support the promotion of sustainable business development and foster a culture of innovation and problem-solving among TVET stakeholders. Meanwhile, the project is finalizing preparations to train additional students in green entrepreneurship (120) and applied entrepreneurship, coupled with incubation support (250) through its direct interventions.

The project formerly provided a Training of Trainers for 24 TVET trainers from the six partner polytechnical colleges. They have managed to cascade the training for 798 individuals (455 female) by themselves.

The project has also supported governance through active involvement in the PROSEAD Skills Development Working Group (SDWG). This has been done in partnership with MOLS.

PROSEAD Component 4 Indicators, Targets and Results				
	Indicators	**Baselines**	**Targets**	**Results**
O4.1	Two thirds of participating companies in/around the IAIPs agree 'to a large extent' or 'completely' that the labour market-relevant activities of the short- and long-term trainings have improved professional and personal skills of graduates/trainees	Two thirds of participating companies in/around the IAIPs agree 'to a large extent' or 'completely' that the short- and long-term trainings have improved professional and personal skills of trained individuals (0) (2019)	Two thirds of participating companies in/around the IAIPs agree 'to a large extent' or 'completely' that the short- and long-term trainings have improved professional and personal skills of trained individuals (20 companies) (06/2024)	791 students enrolled in Cooperative Training Programmes (long-term training), up from 433 in the prior quarter; unchanged from December 2023 are: 7,666 individuals benefitted from employment-related training (short-term training); 3 agro-industry-wide training centers (A-IWTCs) established, resulting in 928 persons benefitting from employment related training; 6 VGC career service centers established; VGC implementation guideline revised and endorsed by MOLS
O4.2	The result score of X managers and Y workers participated in decent-work-agenda trainings/events increased by X%	The result score of 50 managers and 200 workers participated in decent-work-agenda trainings/events increased by X% (Baseline: defined by pre-evaluation tests)	The result score of 50 managers and 200 workers participated in decent-work-agenda trainings/events increased by 20% (06/2024)	2 customized materials for managers and workers addressing decent work agenda are validated by IAIP stakeholders; 103 managers (o/w 10 female) and 125 workers (o/w 29 female) in selected partnering companies completed the decent work agenda training

Key challenges and issues that remain include:

- The State of Emergency in Amhara affects staff mobility, communications and general implementation of activities in the region. There are also stability risks in Oromia which can potentially affect activities.
- Lack of companies in the IAIPs to absorb trained labor. This affects A-WTC operations.
- Decent Work (DW) training is still challenging due to limited availability and willingness of company managers to send their staff.

    - In each training, feedback is given that the owners should receive this training. There is a sufficient level of knowledge and awareness about DW and Ethiopian labour law among workers. However, it is not being implemented in many companies and mechanisms to claim those rights are not in place.
    - The limited number of women in management positions hampers GIZ ability to achieve gender targets. Solutions need to be found to increase women's participation in DW training.
- Lack of financial resources, supplies (personal protective equipment) and critical infrastructure (water and sanitation) in parks and TVETs make it difficult to conduct training as needed.
    - Lack of water and sanitation facilities in partner institutions pose severe health risks in the learning and working environment. This has a long-lasting impact on learning outcomes and employment prospects.
- Closer coordination is needed between different actors and stakeholders.
- There is a mismatch between the number of agro-processing trainees admitted to the TVET institutions and companies offering placements.
    - For example, for fruit and vegetable processing, there are 422 trainees but only 172 training places available in companies. On the other hand, there are 100 machining trainees and 355 training places available in companies.

Opportunities for collaboration with other development partners include content-sharing on supply chain management, broader development of Centers of Excellence in the parks, and support for the planned expansion of laboratory testing facilities for food quality assurance in the parks and relevant catchment areas.

Component 5: PROSEAD Governance and Coordination

The United Nations Industrial Development Organization (UNIDO) is the main development partner engaged in PROSEAD governance and coordination on behalf of the European Union, the latter of which has committed €3.3 million in funding to support PROSEAD governance and coordination.

UNIDO has a signed agreement with MOI, which is the lead implementing stakeholder for the project. Because of the widespread coordination tasks assigned to UNIDO, the IAIP Governance structure also involves MOA, EIC, ECC, FTVET, EFDA, ESI, four RIPDCs, three RICs, three RBOAs, three BoIs, three RECCs and three RTVETs. Many of these are showcased in other components, such as ECC in Component 2, EFDA in Component 3, and TVTs in Component 4. In other cases, there is no activity, such as the RIPDC in Tigray.

The key results to be achieved in Component 5 are **coordination of all IAIP stakeholders and governance of agro-industrial performance are made effective**. Specific PROSEAD results show that the IAIP governance framework has been established, and policy recommendations and related training in the PROSEAD coordination framework have been organized and delivered. However, there are still several gaps, such as:

- Technical Working Groups which are not fully operational;

- Challenges scheduling Federal Steering Committee meetings;
- Challenges in scheduling regional meetings in Oromia and Amhara due to political tensions.

Despite these gaps, the governance structure is in place, and considerable progress has been made since early 2023 after disruption in preceding years due to COVID and civil strife.

During the first quarter of 2024, Oromia Project Steering and Technical taskforce meetings were held, as was the Sidama Project Steering Committee meeting.

- In Oromia, strategic issues like the Oromia water shortage and security around Bulbula park were discussed, as was the rate of investment;
- In Sidama, raw materials and pricing challenges were discussed, as was the rate of investment.

Key indicators as of March 2024 show:

- Governance bodies are now established and functional (Steering Committees, Technical Committees), and meetings are generally held on time and documented at regional and local levels.
    - 38 meetings have been held to date, and at the current pace, the target of 50 will be met in 2024 and exceeded when the project ends in mid-2025.
    - This is a major accomplishment given the instability in Amhara that has made it difficult to travel and convene meetings.
    - More recently, after some initial progress in late 2023, progress in Oromia has stalled at the regional level.
- New or revised policies, strategies, and procedures recommended to policy makers (IAIP authorities) have exceeded targets.
- The number of actors participating in enhanced collaboration settings (clusters, networks) has fully met its target of 24, and plans are in place to add to this number later in 2024.

PROSEAD Component 5 Indicators, Targets and Results				
	Indicator	**Baselines**	**Target**	**Results**
O5	Rate of progress to achieve agro-industrial governance, coordination and participation	TBD	TBD	TBD
O5.1	Governance bodies are established (Steering committees, Technical Committees held on time and documented)	n/a	25 governance structures at the federal and regional level	25 governance bodies established at federal and regional levels – 1 FSC, 3 RPSCs, 4 TCs, 17 TTFs
O5.2	Cumulative number of new or revised policies. Strategies, procedures recommended to policy makers (IAIP Authorities)	n/a	4 policy recommendations on areas of (Investment incentive, trade policy-supply, food safety and quality, park management and operation)	6 carried out: Baseline, Socio-economic Analysis, Gender Analysis, Investment Strategy, Manufacturing Incentive, RTC Utilization
O5.3	Number of actors participating in enhanced collaboration settings (clusters, networks)	n/a	19GB and 5GA - IAIP governance structure participating institutions	19 GOE and 5 PROSEAD partners actively participated in the IAIP governance platforms
O5.4	Cumulative number of firms located in the IAIP with improved management practices		200	8

Key challenges and issues that remain include:

- Investment into the parks remains low, particularly from abroad.
- Finding solutions to the financing and foreign exchange access challenges described in Components 2 and 3 to accelerate investment into the parks and catchment areas to boost demand for raw materials, productivity and value chain development (Component 3).
- Strengthening linkages between the parks with TVTs, financial institutions, RTCs, agricultural producers (e.g., cooperatives, associations) and the private sector.
- Continuing to fine-tune infrastructure and related investments to further reduce barriers to investment and trade, both domestically and for export, such as enhancing product quality (e.g., tracing, certification) along with volume.

Opportunities to strengthen governance and collaboration with stakeholders and development partners to address these issues and challenges include:

- Increasing more regular information flows from PROSEAD to MOI and its partners (e.g., Tony Blair Institute) for PROSEAD input into MOI decision making and budgeting.
- Developing new initiatives among development partners to support the policy priority of import substitution as a means of strengthening value chains and boosting food security.
- Exploring investment needs of prospective investors in the parks relative to ownership and scale, with most companies that may invest in the parks being Ethiopian and comparatively small scale by global standards.
- Exploring financing mechanisms tied to enhanced productivity in upstream supply chains to boost usage of RTCs and to serve as a catalyst for better warehousing and storage to reduce post-harvest loss and increase raw materials flows to IAIP processors.

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