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Quarterly Review of PROSEAD for Stakeholders and External Communication

September 2023

PRO SEAD

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Quarterly Review of PROSEAD for Stakeholders and External Communication: September 2023

Introduction

This quarterly review of developments under PROSEAD (distributed in September 2023) 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.

This quarterly review provides an additional section that is designed to focus on macroeconomic or exogenous factors that influence PROSEAD performance, even if project stakeholders are unable to control such factors. In this second quarterly review report[1], we take a look at export patterns since 2014 based on available data from the IMF, and quantify targets for incremental exports (or import substitution) that would greatly reduce current account and financial pressure on Ethiopia's economy and agricultural/agro-industrial sector. The targets serve as aspirational figures Ethiopia could potentially achieve to reach PROSEAD project objectives regarding agro-industrial contribution to and share of GDP, which were addressed in the first quarterly review. The third quarterly review (to be distributed in December 2023) will build on this narrative and identify products and markets where such incremental export figures can be realized. Therefore, this second quarterly review identifies *what* is the challenge and target, while the third quarterly review will describe part of what is required on *how* to achieve the target. The combination of analyses can serve as a basic strategic anchor for PROSEAD stakeholders in support of larger GOE economic and agro-industrial goals and objectives.

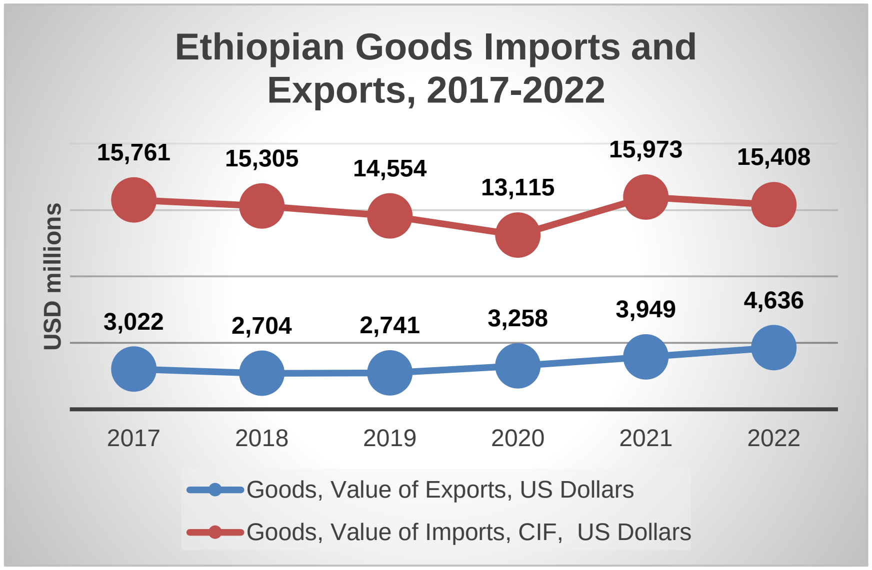
This second quarterly report is intended to provide context for decision making, and to serve as critical information for GOE and DP stakeholders in advance of quarterly DP coordination meetings and semi-annual PROSEAD Steering Committee Meetings (SCM). It is also intended to inform all GOE stakeholders, not just Ministry of Industry (MOI), so that it can 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.

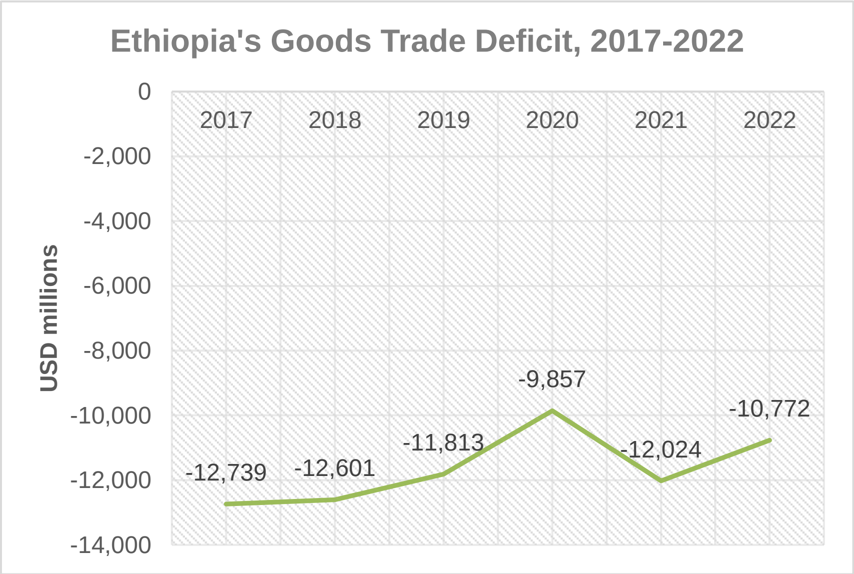
The synthesis report structure follows the log frame matrix but includes identification of areas under individual components where other activities in other components are relevant and may have a beneficial effect on future activities. Therefore, the report is intended to not only elaborate on results, but to also look ahead to where respective GOE stakeholders and DPs can potentially collaborate and strengthen partnerships.

[1] The inaugural report was produced and posted June 30, 2023.

Ethiopian Export Performance and the Importance of Agro-industrial Development

Ethiopia's merchandise goods trade account from 2017-2022[2] registered deep deficits reflecting the sizeable surplus of imports when compared with revenues generated from exports. While these figures do not include services (including tourism), and consequently do not present the full picture of the current account, they do reveal sizeable imbalances in the most important components of the current account for Ethiopia. Ultimately, deficits generated from merchandise trade need to be financed from net current transfers (e.g., remittances), services income (e.g., tourism), investment and credit inflows (e.g., portfolio investment, direct foreign investment, borrowings, ODA/grant financing) and/or use of foreign exchange reserves. (They can also be reduced by bringing down imports via import substitution.) Unfortunately for Ethiopia over the last several years, foreign exchange reserves have diminished because other sources have failed to keep up with trade and investment requirements. In addition, import substitution initiatives have not yet had the effect of materially reducing annual trade deficits.

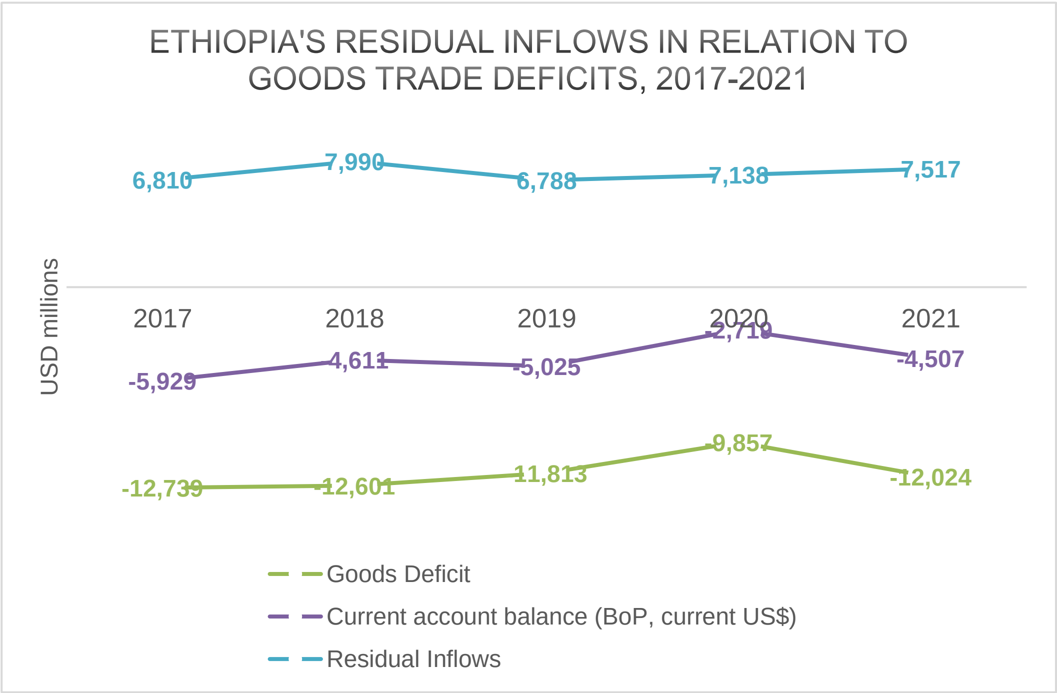




The graph for merchandise goods[3] exports and imports shows the year-on-year (y-o-y) value of Ethiopian goods' exports and imports from 2017-2022. The gap has typically been USD 10-12 billion, with 2020 being the only year when the gap was less than USD 10 billion. This was largely due to reduced imports resulting from trade disruptions due to COVID-19, and less as a result of increased exports, although these did increase by USD 0.5 billion.

The graph on the goods trade deficit shows the average annual deficit from 2017-2022 to be USD 11.6 billion. Goods exports on average were only 22.5% of goods imports.

As noted, these deficits need to be financed and/or reduced through import substitution. The graph on Ethiopia's residual inflows[4] shows how these inflows relate to the goods deficit and the current account deficit. The latter includes net remittances and services income (inflows and outflows), and is therefore a more comprehensive measure than goods flows. In this regard, high levels of confidence from the diaspora population would potentially trigger a spike in remittance inflows (to assist family members not only with household needs, but also for investment purposes). Likewise, a stable environment would attract tourists, which would trigger inflows of services income. Such sources would help offset the large financing gap in goods trade.



The data show that current account deficits were about 39% of goods deficits. This means that about 61% of the goods deficit was financed from other sources, leaving an average 2017-2021 current account gap of USD 4.6 billion. It is this figure, along with the depletion of foreign exchange reserves, that burdens the economy. Even more to the point, a significant amount of the goods imports were legitimate imports of machinery and equipment or materials needed for the construction of facilities to generate needed export capacity for a competitive and middle-income economy. However, as demonstrated by PROSEAD and other indicators, such investment has not yet achieved the output and outcome targets originally set for the integrated agro-industrial parks (IAIPs). Therefore, capital goods imports may help with Ethiopia's future economic productivity. However, to date, the figures are not showing sufficient increases in terms of agro-industrial performance[5].

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[2] Data are sourced from the IMF. See www.imf.org

[3] The figures apply to all goods, not just agro-industrial or agricultural goods.

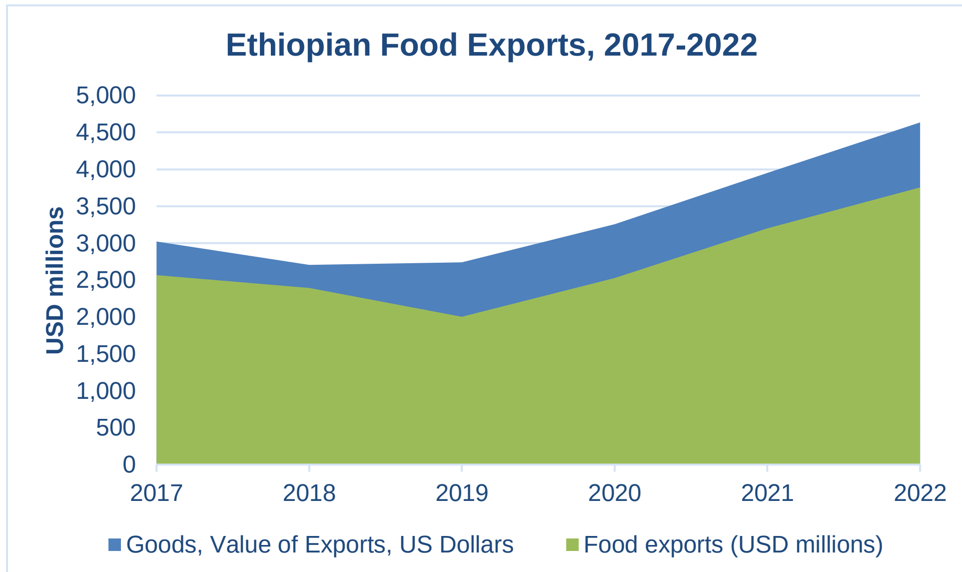
[4] Residual inflows are calculated based on the difference between net goods deficit and net current account.

[5] This note does not analyze the structure of imports. However, a significant share applies to non-IAIP construction, non-IAIP parks focused on other manufactures, household and consumer goods, etc. Much of the capital investment needed in and for the IAIPs has been constrained by foreign exchange access problems, delays in the delivery of needed equipment, renegotiation of contractual terms and/or delays in lining up needed letters of credit to move forward on infrastructure projects.

Inflows from multiple sources averaged USD 7.25 billion from 2017-2021, well below goods deficits. No inflow data were available for 2022, but it is likely these inflows declined due to the war in the north, during which time the US and Europe took counter measures by withholding aid/investment and suspending trade access (e.g., AGOA). In the absence of data, one can only speculate that 2022 showed a deeper deficit for Ethiopia, and that this led to greater depletion of foreign exchange reserves. It is also during this time that GOE stepped up the issuance of local currency-denominated domestic bonds/securities to finance about 30% of the government budget[6], with banks being large buyers of these securities. Such financing has helped to conserve foreign exchange, but has also translated into banks committing more liquid assets to government securities purchases at the expense of lending to the private sector. This kind of “crowding out” has affected the supply of available credit resources and, by extension, reduced access to credit. Lack of access to foreign exchange for capital purchases and local currency loans for working capital needs represent two of the biggest challenges for companies operating or planning to operate in IAIPs. This is also a major problem for supply chain producers whose output is often limited due to challenges they face in accessing credit (e.g., for seed and fertilizer purchases, general inflationary impact on goods and services).

Relation to Agro-industrial Exports and Import Substitution

The above figures and graphics apply to merchandise goods as a whole. Based on estimates from the World Bank’s World Development Indicators[7], food exports averaged 81% of Ethiopia’s total merchandise goods exports from 2017-2021. The shares fluctuated on a y-o-y basis, from as high as 89% in 2018 and as low as 73% in 2019. However, on average, food exports were 81%. With trade restrictions in place in some export markets due to the war in the north[8], it is likely that food exports were an even higher share of total in 2022 due to the drop-off in textile/garment exports to the US market. However, in



[6] The tax base only finances about 60% of the government budget. Another 10% derives from donor support, and 30% from the issuance of government bonds.
[7] See https://databank.worldbank.org/source/world-development-indicators
[8] As one example, most textile and garments produced in industrial parks were exported to the US market. However, when Ethiopian participation in AGOA was suspended, these markets shut down. Other export products like leather, tanning and hides have faced import challenges for chemicals, dyes and other supplies needed for processing and finishing. This has reduced the volume and value of exports in non-food segments.

the absence of data from the same source, this 81% figure is used to estimate total agro-industrial exports.

Such a figure results in an average annual agro-industrial export figure of USD 2.74 billion from 2017-2022, with a peak in 2022 of USD 3.75 billion. In fact, 2021-2022 showed major increases from prior years despite the war and COVID-19, indicating major improvements in food-related export sales. This reflects increases in coffee sales, a global market in which Ethiopia is the world's fifth largest producer[9]. It also reflects production gains in a number of other commodities, and shows that despite major obstacles, challenges and constraints, that Ethiopia is making gains in supply/value chain activities under PROSEAD Component 3.

This latter point is important in relation to import substitution. In theory, import substitution should help Ethiopia reduce its goods and current account deficits. Therefore, rising production is likely to help. However, with population growth adding about net 5 million people per year, Ethiopia's current account pressures persist even with increased output. There is also the future risk of declining yields due to climate change, with one group predicting crop yield declines of 14%, 22% and 5%, respectively, in rice, wheat and maize[10]. Therefore, Ethiopia faces the dual challenge of increasing productivity and output at a fast enough pace to address food security needs as well as bolster exports to alleviate current account deficits. In other words, it is not enough to make progress. The challenge for Ethiopia is to make fast enough progress to keep up with or ahead of population growth rates and corresponding health and nutrition requirements.

Moreover, in terms of exports, the challenge is not only in relation to volume and productivity, but also quality. Ethiopian goods will need to meet quality requirements for entry into other markets if the economy is to benefit from export trade. In many cases, Ethiopia misses out on export opportunities or IAIP processing opportunities due to product quality issues, with buyers rejecting output due to perceived poor quality.

Notwithstanding progress in terms of export earnings in 2021-2022, the data show that Ethiopia's deep goods deficit and general balance of payments weaknesses need to be rectified. With agriculture accounting for 38% of 2021 GDP and 67% of the work force, agro-industry has a major role to play in strengthening the current account and overall balance of payments. Therefore, a simple question is what is a reasonable aspirational target to set for all stakeholders, and to help anchor PROSEAD and other IAIP-related initiatives?

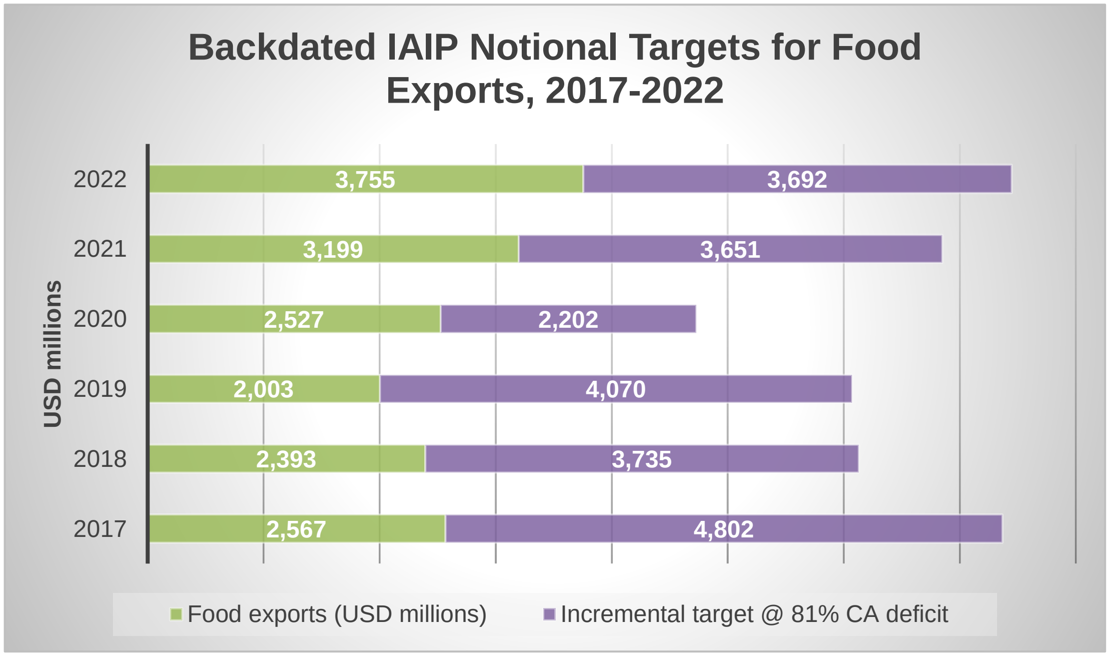
UNIDO has created such a target by applying the 81% average food exports-to-total goods exports to past current account deficits, resulting in incremental notional figures that would close most of the remaining gap. While this is simplistic, backward-looking and incomplete, the logic is designed to showcase how improvements in agriculture and agro-industry linked to other segments of the economy (e.g., accelerated financial sector reforms) could help Ethiopia close out sources of macroeconomic instability. Closing out such sources of instability will be needed to

[9] While Ethiopia is the world's fifth largest producer, it consumes more than half of output. Total market share for Ethiopia is about 4%, with Brazil (37%), Vietnam (17%), Colombia (8%) and Indonesia (7%) accounting for most global production and exports. Figures vary year to year, but rankings generally do not change for the top 5.

[10] See *The Reporter*, July 8, 2023.

attract investors and generate the increases in total factor productivity for Ethiopia to rise up the income chain and become a middle-income country.

By applying this simple logic, Ethiopia needs to generate roughly USD 3.7 billion in additional export revenues from food exports to bring its current account gap into balance. As noted, these data assume an 81% share for food exports. That means that other manufacturing sectors would need to account for an additional 19% for the current account to be in balance. Therefore, textile/garment producers, leather goods exporters and other non-food industrial exporters would also need to grow. However, with Ethiopia's resource profile largely weighted towards a diversified range of agriculture and livestock, it is in these product categories where Ethiopia's future economic stability is anchored.



The average USD 3.7 billion target is the average for 2017-2021, and would likely increase if 2022 data were available. Nonetheless, as this is notional and an estimate, it is adequate for setting an aspirational target that can be adjusted and refined over time.

The target suggests that Ethiopia needs to double its current food-related export earnings. This appears reachable, as the export figure for 2022 is 1.5 times export revenues in 2017. As PROSEAD and other IAIP initiatives take hold, greater output and export revenues can be expected. However, this also means that major constraints or obstacles need to be removed for such targets to be achieved. This includes access to foreign exchange and working capital for producers and IAIP processors, warehouse financing for smallholder farmers, and critical infrastructure in parks (e.g., power, liquid and solid waste, sheds) as well as for catchment areas (e.g., power, roads, ITC connectivity for digitalization). This will require several years of major capital expenditure at a time when foreign investors have shown little appetite for making direct investments into Ethiopia, and when Ethiopia's debt and fiscal profile suggest macroeconomic stability will be a substantial challenge in the coming years. It will also require faster progress with financial sector reform involving larger and better capitalized banks and a full array of specialized non-bank financial institutions, and years of quality-related investment in food safety and certification/traceability to ensure that Ethiopia's brand is positive and that it is able to capture premium prices for its rising volume of exported output.

With such difficulties in mind and recognition of the time required to rectify such deep challenges, a near-term focus on the upstream value chain (PROSEAD Component 3) is warranted to focus on the beneficial economic effects of import substitution. This will allow Ethiopia to address domestic consumption and food security needs while also working on critical pieces of the supply chain to bolster overall volume and quality. At a minimum, import substitution will have the same beneficial effects on the current account by foregoing additional imports, helping to limit the goods deficit. As such a process continues, the focus on enhanced quality (with special focus on potential exports) can then be put in place to gradually increase the volume of export-worthy agro-industrial goods (food and beverages), yielding additional benefits for Ethiopia's current account.

The next quarterly review will take a closer look at how Ethiopia can achieve these food export targets by product category and geographic market, and how volume increases can likewise support expanded import substitution to gradually bring down trade deficits in food products.

High-level Impact and Results

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, agriculture and allied industries' share of 2021 GDP was 40% of total, compared with 38% in 2020[11]. This represents an 8.6% year-on-year (y-o-y) increase in total contribution to GDP. However, the increase was based on primary agricultural output, as the USD figure for agro-processing declined by nearly $300 million.

Challenges persist in measuring and reporting on agro-industrial developments due to definitions, industrial classifications, and time lines and accuracy of data. This relates to complexities in capturing and measuring value-added components specific to food and beverage processing as a part of agro-industry, including in such areas as meat products and the segregation of food and beverage products from leather, textile and other goods considered as agro-industry. Therefore, identifying patterns of value-added in food and beverage processing separate from primary sector agriculture on the one hand and industrial value-added in non-food manufacturing on the other make it challenging to track quarterly, semi-annual or even year-to-year trends.

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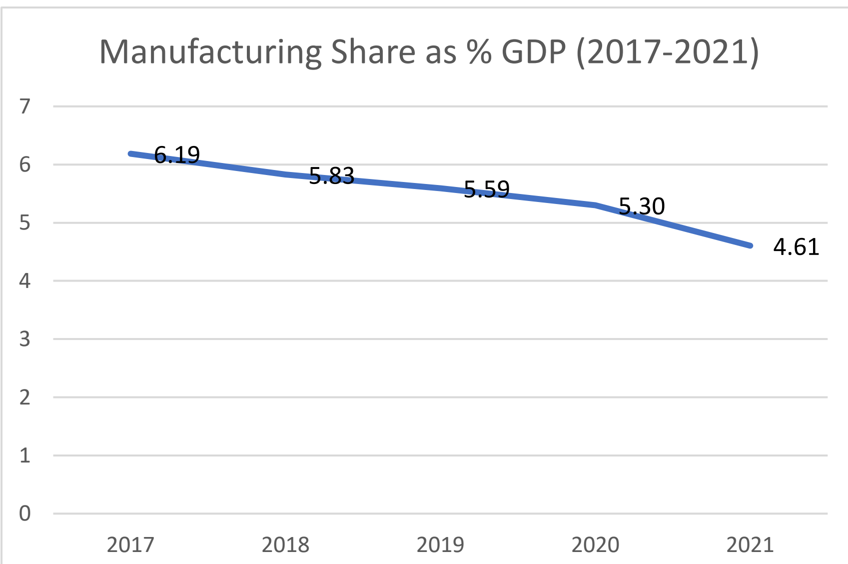
[11] The data are based on current US$ figures for GDP and sector (agriculture and manufacturing) shares of GDP from the World Development Indicators (https://databank.worldbank.org/source/world-development-indicators). A 50% agro-processing share of manufacturing is applied based on estimates from the US International Trade Administration (https://www.trade.gov/country-commercial-guides/ethiopia-agro-processing#:~:text=Agriculture%20is%20an%20engine%20of,its%20foreign%20currency%20from%20exports).

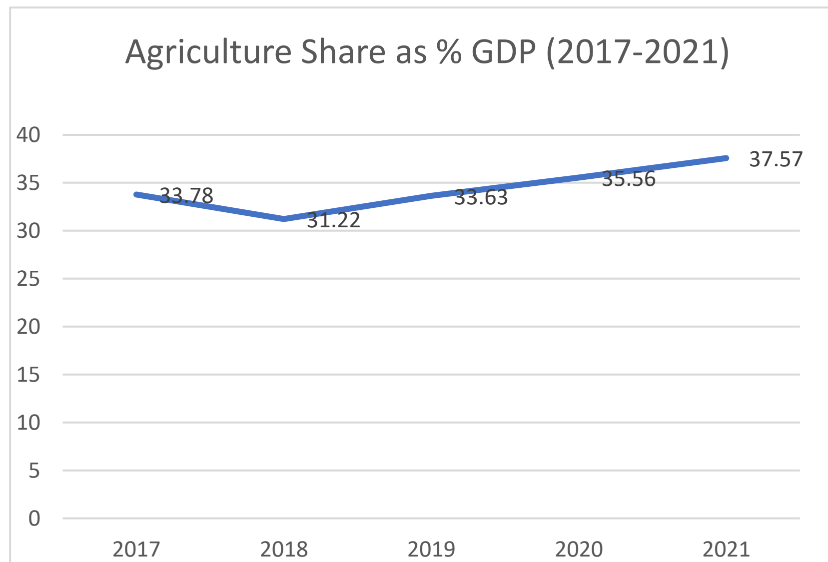
Inclusive economic opportunities have increased during the period from PROSEAD components supporting infrastructure capacity, access to finance, value chain support and linkages, and skills development and productivity. An estimated 1,748 direct jobs for factory workers (of whom 562 are female) and about 140,000 indirect jobs have been created by the full array of PROSEAD activities. Therefore, the pattern shows progress towards achievement of targets and with it, movement towards a more robust agro-industrial sector in the economy.

On the negative side, results also show significant gaps relative to targets, particularly in terms of the number of active investors in the integrated agro-industrial parks (IAIPs), indicating the need for intensified support and potentially new/additional initiatives for PROSEAD to achieve targets. These efforts are complicated by global economic instability (e.g., inflation), domestic political instability, the considerable infrastructure gap in park catchment areas (e.g., power, water, feeder roads, ITC), lending and financial sector limitations, and the severe shortage of foreign exchange needed for many businesses to purchases needed inputs, machinery and equipment.

Discussion of Indicators, Targets and Results

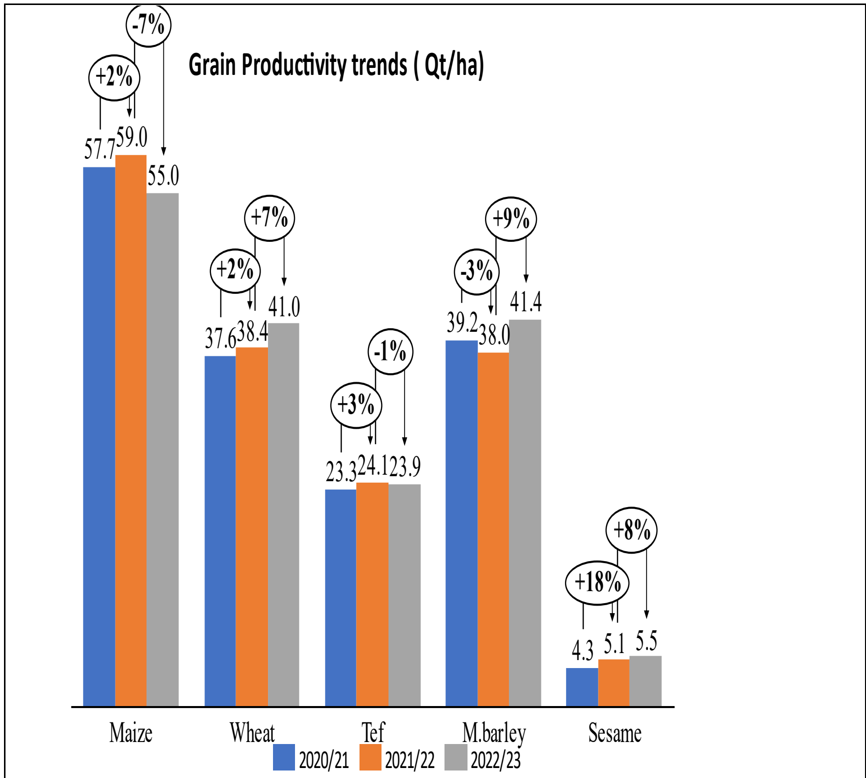
PROSEAD O1 focuses on agro-industrial growth as a percent of GDP, with targets and results measured against a 2015 baseline figure of 6.5%. PROSEAD targets for agriculture and allied industries were to contribute 8% to GDP by 2023, and for agro-processing alone to account for 6.7% of GDP by 2025. Based on the most recent available data, agro-processing contributed 2.3% of total 2021 GDP (in USD). However, as noted above, these figures cannot be fully validated from raw data as there are issues of industrial classification. The following graphic based on data from the World Development Indicators database indicates positive growth in primary agriculture production, but a declining trend in manufacturing (and agro-industrial) contribution to GDP. As noted above, growth rates only tell part of the story. In USD value, agro-processing declined by $300

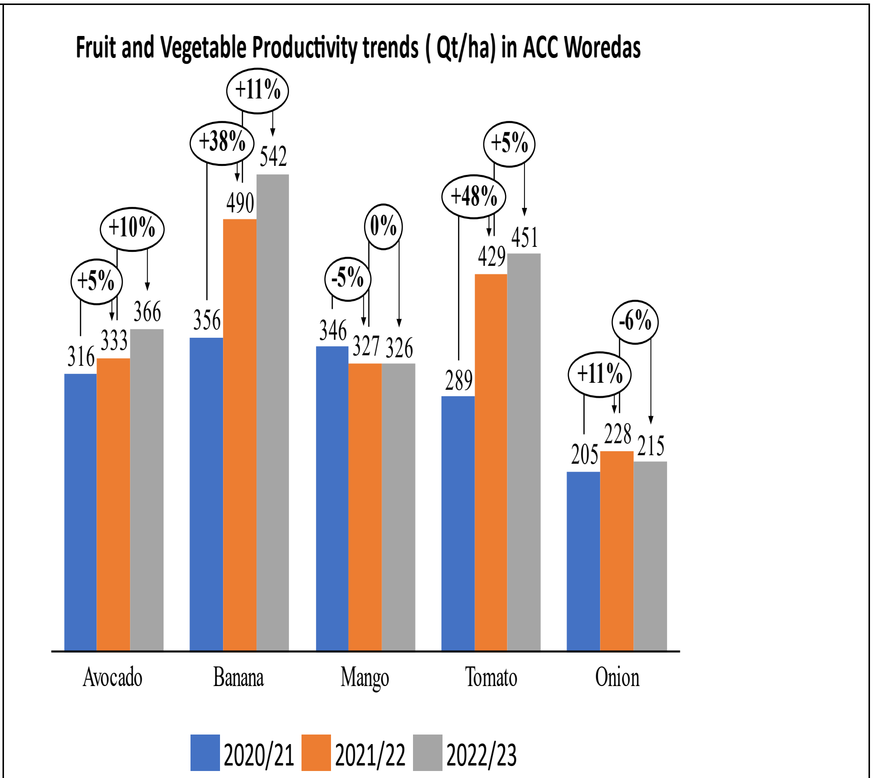




million, whereas agriculture increased $3.5 billion. Therefore, the combined growth rate was nearly 9% y-o-y, a positive outcome. However, the agro-processing trend shows a modest decline while primary sector output (and services) increased their shares of total GDP.

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 based on 2022/23 production season harvest data show that grain crops productivity growth rates exceeded 3% targets in most products (7% wheat, 9% malt barley and 8% sesame, with a slight decline in maize due to input supply irregularities and a very slight decline in teff). Likewise, horticultural crops have shown significant growth (avocado 10%, banana 11% and tomato 5%) except for onions (due to allocation to lands to other crops), and mango due to disease. Areas of decline are significant for the economy due to household consumption patterns (teff, onions, mango) and for livestock feed and human consumption (maize). Three-year productivity trends are presented below.





Source: Data from ATI

The graphic does not include soybean output because it has been added as an ACC crop with full integration since last year only (2021/22). In 2022/23, soyabean production increased significantly in response to good price incentives in the previous year. However, international market demand declined, resulting in price declines that reduced incentives for soyabean producers.

The local processors' soyabean crushing capacity is very limited; only Richland has bought in bulk (300,000 quintals). To avert an extreme dip in soybean prices, there was an intensive effort to create market linkages from different sources like exporters and other small processors.

To avoid the repercussions of the past production season, ATI plans to better link 2023/24 production via contractual agreements for outputs, facilitating input supply and area expansion and by organizing additional FPCs within its ACC mandate woreda. In Amhara region, 207,000 ha of land was brought under soyabean production, with an expected 4.7 mill quintals of output. The emerging contract farming framework will help to enforce signed contracts. Meanwhile, the production of soyabean is expanding to Oromia, Sidama, and other newly formed regions.

Avocado demand from Yirgalem IAIP increased by a slight margin from the previous year. However, demand was below expectation as Sunvado PLC was out of processing for months during the peak avocado production season.

Volatility in the market showcases the challenge of forecasting estimated demand at prices that are feasible for farmers. Absent pricing incentives and collateralized credit schemes, they will shift production to other crops/commodities. This is relevant in terms of general output patterns, as well as the desired shift to rising value-added.

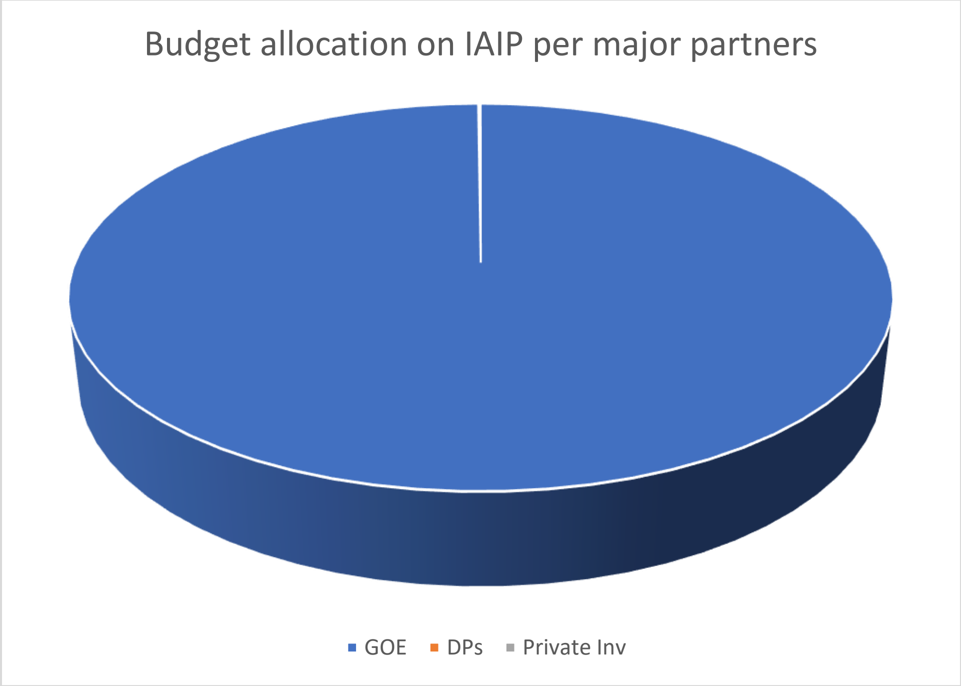
It also showcases the need for a more effective financial sector and warehouse financing system linked to market prices that are transparently reported. In the absence of adequate pricing incentives for producers, grading and certification systems, and warehouse facilities that protect against post-harvest loss, processors in IAIPs will not be able to access sufficient volume of raw materials to run their operations at high enough capacity utilization rates throughout the year for their operations to be profitable.

This showcases another key challenge faced by agro-processors, which is access to vital raw materials to ensure they have adequate throughput for efficient manufacturing. Soybean is just one example of the need for better forecasting and planning, as well as efficiency through all stages of the value chain that include financial sector intermediation and services.

Despite these challenges, in local currency terms, commercialization results in the value chain are showing favorable trends. Production, prices and surplus were all favorable in 2022. The challenge will be sustainability and ensuring there is adequate scale, quality and product flow-through for value-added to increase towards targets.

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 226% of 2017 levels as of October 2022[12], reflecting a significant gap relative to the target of 400% set for 2023. European Union investment in infrastructure under Component 1 represented the largest contribution among PROSEAD partners at Euro 9.4 million. However, there is a major gap in financing due to the limited 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.



PROSEAD SO2 focuses on agriculture & 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 Components 2-4 helped to reduce the unemployment rate through the creation of about 140,000 jobs, of which about a third were estimated to be for female employees. However, this does not directly explain the impact on declining

[12] Numerator = USD 600 million for parks plus USD 400,000 (20 million ETB) in investment from private enterprises in parks plus USD 351,929 in donor financing. Denominator = baseline 2017 USD 266 million.

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[13]. Therefore, it is unclear if the general unemployment rate declined as labor participation rates and other *current* labor market data are not available.

Component 1: Park Infrastructure and Capacity

The African Development Bank (AfDB) is the main development partner engaged in the support of park infrastructure development, with financing support, including from the EU. The Bank also has additional 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 through the GOE budget. Remaining investments in power sub-stations and waste management are expected to be completed within 18 months (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. 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.

Compliance reports have been submitted, and 310 MOI and Industrial Park Development Corporation (IPDC) technical management teams have received training, including 35 of whom are female. 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, personnel turnover among IPDC management teams weakens the impact of training and capacity building efforts.

[13] See World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

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[14]	PROSEAD public sector fund facility of €10 million for government to lever at least 400% (2023)	Cumulative GOE investment in IAIPs valued at > ETB 30 billion (≈ USD 600 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
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)

Key challenges and issues that remain include:

- Most infrastructure investment in the parks providing results show that Bure Potable Water Treatment is 83% completed and preparation is underway for testing and commissioning. Meki RTC Wastewater Treatment plant is 100% complete and awaiting testing and commissioning. The Yirgalem 200 m^3 capacity Wastewater Treatment is only 20% completed. The procurement process is underway for additional infrastructure for Wastewater Treatment in Motta and Amanuel RTC in Amhara region and water supply in Meki RTC in Oromia. The 7km HDPE water supply system in Yirgalem Park is 32% completed (2.5km line excavated and 1.5km HDPE pipeline installed, with the work expected to completed before the end of 2023 Thus, infrastructure development is still at different stages in the three parks (Bure/Amhara, Bulbula/Oromia, Yirgalem/Sidama-SNNP) where industrial activity is already underway. Works are still underway in the development of dedicated power sub-stations, effluent treatment and solid waste management.
- Overall infrastructure development results broadly show that Bure is 87% complete, Bulbula is 98% complete, and Yirgalem is 78% complete. However, the additional time required to finish with remaining infrastructure investment may serve as a deterrent to investors to locate in the parks, further slowing progress towards high-level outcomes as well as:

[14] 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 ES related infrastructure (share of total). Work is ongoing to refine this baseline indicator.

    - Component 2 by reducing levels of demand for credit in support of greater agricultural output, although the biggest challenge in Component 2 is broad access to loanable funds (despite increases in 3Q 2023);
    - Component 3 by slowing backward-forward linkages for agricultural productivity growth and value chain development;
    - Component 4 by constraining demand for skilled labor and related job training.
- While training of MOI and IPDC and other IAIP stakeholder institution personnel has been undertaken and benefited 310 (35% female) people, turnover of RIPDC employees reduces the beneficial effects of such training and broader capacity-building activities.

Opportunities for collaboration with other development partners to address these issues and challenges include:

- Cooperation and synergy among AfDB/GIZ/KFW towards capacity building of TVT Colleges to increase skilled technicians in infrastructure investment-related fields, including facilities management in the parks;
- Close cooperation of MOI with EEP (Ethiopian Electric Power) to fast-track installation of dedicated power supply to the parks, especially Bure Park but also to ensure more regular supply in Bulbula Park.

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, Rural Financial Intermediation Programme III, through the Development Bank of Ethiopia with the National Bank of Ethiopia, the Ethiopian Cooperative Commission, 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[15], results show that 11,656 farmers had been supported with financing as of August 2023. This represents a significant percentage increase from June 2022 (7,377), with continuous progress demonstrated in the quarter with an increase from 11,137 in June 2023. While it is a positive trend, this still represents a small share of the total number of farmers in the relevant catchment area. More than 50% of the beneficiaries were female. Therefore, the project has succeeded in increasing numbers of beneficiaries and its proportion of support to females.

Overall levels of farmers receiving finance products and services in the park catchment areas is less than 2% of the 2017 baseline total of 714,000[16]. Limited supplies of loanable funds despite recent increases[17], pricing disincentives (low prices received by farmers) for output, and weak value chain linkages have reduced the number of borrower participants in IAIP catchment areas.

[15] IFAD's activities are nationwide, with PROSEAD included as one part of IFAD's overall effort.
[16] The baseline figure is currently under review.
[17] DBE reported a USD 1.5 million increase in available loanable funds earlier in 2023.

The need for a modern financial sector that includes stronger banks as well as non-bank financial institutions active in warehouse financing, lease and equipment financing, transportation, credit guarantees, factoring and other working capital financing as well as network expansion of collection centers with digitized links to Ethiopian Commodity Exchange (ECX) prices for transparency and all key food commodities[18] are all required for agro-industrial advancement.

The biggest constraint facing PROSEAD performance is the shortage of investment in the parks, challenges faced in accessing both foreign exchange and local currency working capital, and insufficient infrastructure in relevant catchment areas. As noted in prior reports, the limited availability of loan funds for smallholder farmers, cooperatives, unions and other producers has continued to be a major constraint, reducing access to credit. Combined with unfinished infrastructure investment and other infrastructure needed for production in the parks and transport of raw materials to the parks (via collection centers and RTCs), financing remains the single greatest challenge for PROSEAD. Meanwhile, recent restrictions on bank loan funds taken as a central bank measure to reduce inflationary pressures in the economy[19] means even less likelihood that businesses in the parks or catchment areas will be able to borrow from banks.

Relevant to O2.3, loan amounts disbursed to clients in the catchment area were reported to be USD 4.762M (ETB 195M) in April 2023, USD 7.0M in June 2023, and USD 7.3M in August 2023. However, no data have been made available regarding loan quality (repayment) and the impact this has on portfolio performance. However, loan disbursements have increased in recent quarters.

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[18] ECX currently handles grains, sesame and coffee. This means that information on pricing for other major food commodity groups like meat, dairy and spices are not included.

[19] The National Bank of Ethiopia recently imposed a 14% limit on year-to-year lending by banks to enterprises in its efforts to bring down the inflation rate.

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)	To be assessed at the RUFIP III formulation stage 40%	11,656 (vs. 7,377 in 2Q) reached in IAIPs.
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%)	As above with ambition to reach 50%	Female: 5,795 (vs. 3,743 in 2Q)
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	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 2023.

Key challenges and issues that remain include:

- Financing for firms in IAIPs is limited, particularly foreign exchange, which impedes capacity of investors in the parks to import needed machinery and equipment and potentially other assets. Such financial constraints and foreign exchange surrender requirements offset the benefits of other incentives for firms to locate in the parks (e.g., duty-free imports, tax exclusions), which also means slower progress in relation to Component 3 value chain development and reduced demand for Component 4 skills development initiatives in labor markets.
- The limited presence of investors also means less demand from processors in the parks, which slows linkages with producers and makes it more challenging to achieve higher-level agricultural growth targets.
- Perversely, delayed activity in the parks means less opportunity to generate exports which would then help alleviate constraints on access to foreign exchange.
- Obstacles to value chain development serve to reduce activity, thereby reducing creditworthiness and demand for financing that can be sustained without heavy losses.

Opportunities for collaboration with other development partners to address these issues and challenges requires an increase in loanable funds.

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 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**. Specific PROSEAD results show that four ACCs and 4,606 Farmers' Production Clusters (FPCs) are supported in Bure and Yirgalem IAIPs, with average female and youth participation of 12% in ACCs and 10% in FPCs. These are well below targets of 30% for female participation, but show increases in engagement with FPCs from the prior quarter.

Farmers' increased production (and improved productivity) have enhanced the average incomes of participating farmers by 3.2% for male and 1.4% for female smallholder farmer (SHF) participants. Moreover, through increased marketable share of 57%, the SHFs were able to supply 441,773 qt Quintal of avocado and 1,008,951 Quintal of soyabean to agro-processing companies operating inside Yirgalem and Bure IAIPs.

These results show progress towards PROSEAD objectives, although both avocado and soybean producers are burdened by a weak framework in which buyers are able to reject purchases or significantly reduce prices based on quality of product. The new contract farming framework should help with these issues. However, enforcement of contract farming terms and conditions will also require reliable infrastructure and facilities to grade/certify product quality as well as the timely transmission of prices and guarantee of full payment to producers. These are currently issues that result in alleged abuses by traders due to weak supply chain linkages and inefficiencies in the upstream distribution system. This is a particularly challenging problem for horticultural producers like avocado growers due to the perishability of their products.

The gender differential on rising incomes is an area where PROSEAD will also 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. PROSEAD will also want to see an increase in the number of clusters as well as income and employment opportunities and gains for women and youth resulting from these cluster formations.

PROSEAD Component 3 Indicators, Targets and Results				
	Indicators	Baselines	Targets	Results
O3.1	Number of clusters supported entering into the agro-industrial value chains & levels of women/youth inclusiveness	Number of clusters supported =0 (2018) -Cluster inclusiveness for women & decision-making responsibilities <10% (2015) -number of contracts with regional research institutions = 0 (2017)	Number of clusters supported = 20 per region (2023) -Cluster inclusiveness >30% (2023)	4 ACC and 4606 FPCs (vs. 4 ACC and 4402 FPCs in 2Q) 12.3% women and 10% Youth participation
O3.2	Average increase earning to farmer on value chains subject to a crop delivery contract, including gender disaggregation	TBD	TBD: at least 40 T&Ds per cluster per region with >35% females' and youth participation (2023)	3.2% for male (vs. 2.89% male in Q2) 1.4% for female (vs. 1.25% female in Q2)
O3.3	Number of youth and women with secure tenure of land thanks to support from this Action	TBD	TBD: at least 40 T&Ds per cluster per region with >35% females and youth participation (2023)	Deprioritized indicator

Key challenges and issues that remain include:

- Prevalence of smallholder and subsistence farming, which is relatively low in productivity and exacerbated by reduced rainfall, soil erosion and diminished soil quality, and limited mechanization. Most of these factors are outside the control of farmers or Component 3 stakeholders but remain influential factors that make the task more challenging.
- Insufficient quality control by smallholders that leads to weak prices or rejected sales.
- The limited presence of investors in the parks reduces demand for output from primary producers, which slows market access for producers and further delays achievement of high-level targets focused on increased agro-industrial value-added as a share of GDP.
- The need for better incentives (e.g., pricing, collateralized credit/warehouse financing schemes) to stimulate farmer output, and better forecasting of supply-demand from Government authorities and other large purchasers of commodities so that farmers can optimize planting decisions that boost incomes, sustainable employment and value creation in the agricultural sector.

- General improvement in the business environment to facilitate effective cluster formation and scale of production units for added efficiency in grains, cereals, horticulture and other product categories. Recent contract farming guidelines approved by the government may help with this.

Opportunities for collaboration with other development partners to address these issues and challenges include building on current initiatives with AICS, KfW and 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).

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[20]. 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**. Specific PROSEAD results show that Component 4 has been able to enroll 355 students (30% women) in Cooperative Training Programmes (long-term training), 7,666 individuals in employment-related training (short-term training) and create three agro-industry-wide training centers.

The 355 figure is lower than the target of 960 for long-term training. This number is expected to rise by the end of the project (August 2024) on the expectation that business activities will increase in the parks as more agro-industrial companies invest and commence processing operations in the IAIPs. There is greater recognition of the need for comprehensive cooperative training in machine operations and maintenance, mechanics and various agro-processing sectors.

In the case of short-term training, the accomplished figure approximates 85% of target (9,000), and females account for 79% of beneficiaries. Meanwhile, the IAIP training centers (A-IWTCs) include establishment and provision of required facilities for a digital laboratory, theoretical training room and conference room.

Other key contributions from GIZ activities include the preparation of materials, videos and radio campaigns associated with the decent work agenda targeted for IAIPs in the relevant catchment areas, and successful partnering with TVTs/educational institutions to provide incubation,

[20] 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.

business and employment-related services. Six Vocational Guidance and Counselling (VGC) Career Services centers have been established and are operational. These will be fully sustainable once the revised VGC implementation guideline has been endorsed by MOLS. Likewise, 928 individuals (50% female) have benefitted from employment-related training and services (66% of target), and 12 start-ups have been created.

GIZ is also coordinating closely with KfW to help with planning and delivery of relevant machinery, equipment and training modules associated with planned Centres of Excellence in agro-industrial parks, with potential linkages to TVTs in terms of training linkages. GIZ is also coordinating with AICS on the latter's food safety initiative (with UNIDO support) to ensure complementarity of design in the respective projects to strengthen the general agro-industrial ecosystem focused on productivity, efficiency, and quality output in support of enhanced food security and export revenue driven by a competitive agro-industrial sector.

Therefore, Component 4 has succeeded in increasing skills training (both technical and soft-skills) for job seekers. These will become evident when investment in the parks increases and agro-processors seek out the required human capital. However, until greater investment occurs, long-term/short-term training activities may slow due to the lack of demand resulting from the low investment, which limits capacity to absorb skilled labor. The collaboration of GIZ with KfW is an example of how GIZ is supporting capacity enhancements to help facilitate investment into the parks.

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)	355 students enrolled in Cooperative Training Programmes (long-term training); 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; 12 start-ups established; 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)	Decent work context assessment conducted; scale-up of decent work sensitization radio program episodes produced in Amharic and in Sidamu Afoo in progress

Key challenges and issues that remain include:

- Small number of operating companies in IAIPs, which reduces the number of skilled laborers from being attracted to additional Cooperative training activities.
- Lack of effective agro-processing association(s) to promote IAIPs at large in agro-processing sector.
- Poor linkages between Universities/Technical and Vocational Training centers (TVTs) and IAIPs, and the need to increase the supply of skilled labor ready for employment with companies operating in the IAIPs, partly by adding capacity in TVTs and Agro-Industry Wide Training Centers (A-IWTCs) to respond to demand-driven requirements of companies in IAIPs.
- Conflicting priorities of labour rights vs. attraction of investors as GOE tries to attract foreign investors with incentives to ease business processes regarding working conditions as well as to encourage the attractiveness of low salaries for investor profitability. These messages negatively impact efforts to create and maintain decent working conditions, renumeration, occupational safety and health, and fundamental labour rights.

- Lack of resources and infrastructures in the partner institutions (TVTs, A-IWTCs, etc.) to deliver the necessary practical skills training.
- Need for better coordination between TVTs and park management in the IAIPs to ensure more efficient operation of park infrastructure and support services (which could potentially be met with people trained by TVTs for specific requirements).

Opportunities for collaboration with other development partners to address these issues and challenges have been noted above in relation to KfW-funded Centers of Excellence in IAIPs and with AICS in relation to food safety initiatives.

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, IAIP Governance also involves MOA, EIC, ECC, FTVET, EFDA, ESI,4RIPDCs,3RIC, 3RBOA, 3BoI, 3RECC and 3RTVET. Many of these are showcased in other components, such as ECC in Component 2, EFDA in Component 3, and TVTs in Component 4.

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.

The IAIP governance framework is up and running at federal and regional levels. The first Federal Steering Committee meeting in 15 months was held June 30, 2023. Another is tentatively planned for very early December, 2023, returning to semi-annual schedules as agreed when PROSEAD was launched but subsequently disrupted by COVID-19 and the civil war.

Studies and policy recommendations have been produced and shared with stakeholders. A large number of GOE/MOI personnel, regional and local officials, park management, farmers, food processors, cooperatives and others working in relevant value chain areas have received targeted training. Therefore, progress has been made in relation to the effort to strengthen governance and improve coordination.

However, additional work is required to strengthen governance and information dissemination across federal and regional/local levels, among development partners, in conjunction with MOI and other Government stakeholders, and with the private sector. This report[21] and other initiatives represent part of that effort. Plans by UNIDO to expand and add content to the IAIP web site (https://iaip.gov.et/) are likewise part of the effort.

[21] This is the second upgraded quarterly report. The first, prepared and posted on June 30, 2023, is on the https://iaip.gov.et/ site.

PROSEAD Component 5 Indicators, Targets and Results				
	Indicator	**Baseline**	**Target**	**Results**
O5.1	Governance bodies are established (Steering committees, Technical Committees held on time and documented)		25 governance structure at the federal and regional level	29 governance bodies established at federal and regional levels[22] – 1 FSC, 4 RPSCs, 4 TCs, 20 TTFs
O5.2	Cumulative number of new or revised policies. Strategies, procedures recommended to policy makers (IAIP Authorities)		4 policy recommendations on areas of (Investment incentive, trade policy-supply, food safety and quality, park management and operation)	Three strategy and procedures documents developed
O5.3	Number of actors participating in enhanced collaboration settings (clusters, networks)		100 FCU, 50 firms, 20 institutions, 5 GB, 5GA Revised: 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.
- Working with Government and other stakeholders to find solutions to the financing and foreign exchange access challenges described in Components 2 and 3 needed to accelerate investment into the parks and to boost demand for raw materials, productivity and value chain development (Component 3).
- Being more commercialized and private sector-oriented in focus as a means of attracting investment into the parks, and more broadly strengthening linkages between the parks with TVTs, financial institutions, Rural Transformation Centers (RTCs), agricultural producers (e.g., cooperatives, associations) and the private sector.

[22] This includes four governance bodies in Tigray. Figures also account for additional bodies resulting from SNNPR/Sidama administrative split.

- 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 through quarterly updates based on targets and results and how these relate to higher-level impact and economic outcomes to support GDP and employment growth, sustainable development, and agro-industrialization as a driver of value-added in a rapidly increasing economy with steadily improving macro and social indicators (e.g., GDP growth, lower inflation, rising incomes without rising GINI coefficients, stable debt management ratios, rising fiscal contributions to GDP, increased trade and investment, rising employment and productivity indicators, gender equality indicators).

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