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Quarterly Review of PROSEAD for Stakeholders and External Communication

June 2024

PROSEAD

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

Introduction

This quarterly review of developments under PROSEAD (distributed in June 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 innovation metrics, their potential meaning for enhanced competitiveness in agriculture and agro-industry, and how Ethiopia performs relative to other countries in Africa and around the world. This follows prior quarterly reports posted on the PROSEAD web site[1] that reviewed international trade statistics, Ethiopia's manufacturing performance, and how these and other issues relate 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.

Innovation and Ethiopia's Place in the World

The innovation information relies on an annual *Global Startup Ecosystem Index* for 2023 and 2024[2] that profiles the top 100 countries and 1,000 cities for numbers of startups, quality of startup ecosystems and companies, and startup business environments. On a global basis, the global startup market received USD 413 billion in funding in 2022 for 31,067 transactions, or an average of USD 13.3 million per deal. These figures

[1] See www.iaip.gov.et

[2] See https://www.startupblink.com/ Note the 2024 report does not yet have full-year financial figures. Therefore, most recent full-year figures are used for 2023. However, rankings generally reflect 2024 index results.

were well below those recorded in 2021 (USD 642 billion in funding for 32,058 deals, or USD 20.0 million average), but higher than funding totals for prior years and generally at or higher per transaction[3].

Key economic factors impacting startup investment included growing interest in artificial intelligence, climate technology, and semiconductors. In some cases, trends are driven by large economies with large domestic markets (e.g., USA ranked #1, China ranked #13). In other cases, this is driven by relatively smaller economies that leverage international strategies (e.g., UK ranked #2, Israel ranked #3, Singapore ranked #5). Other leaders tend to have a mix of domestic capacity and close trade ties with regional economies (e.g., Canada ranked #4 with close ties to the US; 10 European Union members ranked between #6 and #18).

In some cases, regional hubs are forming, as in Singapore, Dubai and Lagos. Singapore is benefiting from developments in Hong Kong as investors seek a safer and more secure haven. Dubai is capitalizing on the significant wealth and investment interest in the Gulf States and potential opportunities for regional cooperation. Lagos has benefited from its prominent role in fintech and large consumer market[4].

Leading startup investment targets in 2024 were found in software and data (34%) and e-commerce (11%), while health tech (10%) and fintech (9%) showed modest declines as a share of total. Of the 11 industries covered, food tech accounted for less than 4% of total, and was 9th of 11[5]. Therefore, it remains a relatively under-served segment of startup investment, although other areas can have indirect effects on agriculture and agro-industry in the form of enhanced business management, product development, marketing and competitiveness (software and data), quality (health tech), logistics and efficiency (fintech; hardware and IoT; transportation), marketing and sales (ecommerce and retail; marketing and sales), and resource management and environmental sustainability (energy and environment).

Ethiopia and Africa

Africa's role in the global ecosystem is modest, although 13 African countries are among the top 100. These are South Africa (#52), Mauritius (#59), Kenya (#63), Nigeria (#64), Egypt (#66), Cabo Verde (#78), Senegal (#86), Namibia (#87), Ghana (#88), Tunisia (#90), Morocco (#92), Uganda (#95), and Rwanda (#98).

As for leading African cities, Lagos (#70) and Cairo (#97) are the only ones in the top 100. Others with comparatively high rankings include Nairobi (#113), Cape Town (#128), Johannesburg (#139), Victoria, Seychelles (#253), Dakar (#261), Accra (#268), and Port Louis, Mauritius (#288). Lagos is most known for fintech, Cairo for food tech, Nairobi for energy and environment, and Cape Town for ed tech and fintech.

[3] The 2019 funding of USD 292 billion averaged USD 9.0 million per transaction. In 2020, funding of USD 309 billion averaged USD 13.9 million per transaction. See *Global Startup Ecosystem Index*, p. 15.
[4] See *Global Startup Ecosystem Index*, pp. 258-259.
[5] Startup investment in food tech increased from USD 3.4 billion in 2023 to USD 4.5 billion in 2024.

Ethiopia is not ranked among the top 100 countries, although it and Addis Ababa are referenced as "contender ecosystems" that offer good prospects for being among the top 100 countries in the subsequent year (2024). Addis Ababa is currently (2024) ranked #328, which represents a sizeable increase from #417 in 2023 among the top 1,000 cities for startup ecosystems.

Relevance of Global and Regional Innovation Trends for Ethiopia

There are several implications for startup trends and Ethiopia's future as an economy anchored by a competitive and efficient agricultural and agro-industrial sector.

- While Ethiopia has a large population, its GDP and per capita income levels are low. Expanding networks can help stimulate investment in innovation.
    - There are many small countries ranked among the top 20. In the absence of a large domestic market, this shows the importance of regional linkages for trade and investment.
    - Among the top 20 countries, eight have populations of roughly 10 million or less[6].
    - Among African cities, Victoria (Seychelles) and Port Louis (Mauritius) are islands with populations less than 1 million.
    - Therefore, networks for trade and investment can compensate for existing deficiencies in the domestic market.
- The financial sector is underdeveloped in Ethiopia. Until the financial system is more fully developed and diversified, expectations should be tempered.
    - The average startup transaction exceeded USD 13 million in 2022.
    - It will take many years for Ethiopia's financial sector to meet the startup ecosystem requirements for a well-funded network of incubators and accelerators that foster a climate of innovation and entrepreneurship.
- To offset domestic financial constraints, a sound legal, regulatory and institutional framework that entices foreign capital is needed to supplement financial resources, bring technical skills and capacity, and enable effective market linkages.
    - Nigeria has done this, and other countries are following through with enabling environment support.
- To build networks and leverage resources, several neighboring countries offer lessons for Ethiopia to adapt.
    - Ethiopia can capitalize on the progress made to date in Kenya, Rwanda, Uganda and even Somalia to foster movement towards a regional network of hubs, information exchanges, supply chains, and financing networks.
- Given domestic needs and strategies (e.g., import substitution, manufacturing that relies significantly on the development of food and beverage processing), Ethiopia can organize its innovation and entrepreneurship strategies around food and beverage processing and general agriculture sector development and sustainability.
    - Public sector money can focus research on food quality, safety and value creation to better enable private sector actors to capitalize on the opportunities provided by the sector.

[6] Israel, Sweden, Singapore, Finland, Estonia, Ireland, Lithuania and Denmark.

- As the private sector environment becomes more conducive, outside investment will identify Ethiopia as a market of opportunity.

Benchmarks for Next Steps and Forward Progress

The *Global Startup Ecosystem Index* has a number of indicators it uses to rank ecosystems[7]. Relevant indicators are included or adapted for Ethiopia to set targets and monitor performance are presented below. Some of the "quality" indicators are not currently relevant, but would serve as aspirational measures as progress is made in developing the financial sector and ecosystem needed for sustained entrepreneurship and innovation.

Quantity

- Number of startups
- Number of investors
- Average value of investment
- Number of incubators and accelerators

Quality

- Total accumulated private sector startup investment
- Total accumulated number of startup sector employees
- Number and size of unicorns and exits above US$ 1 billion
- Valuation of exits with a valuation below US$ 1 billion
- Number and size of gazelles[8] and exits
- The traction of startups in each ecosystem (e.g., traffic, domain authority, customer base)
- Presence of strategic branches and R&D centers of international technology corporations
- R&D centers of multinational companies
- Linkage of R&D to other African companies/platforms
- Branches of multinational companies
- Branches of other African companies/platforms
- Number of startups accepted by top global accelerators per ecosystem

[7] See *Global Startup Ecosystem Index* discussion of methodology, pp. 33-38.

[8] A *gazelle* company is a young fast-growing enterprise with base revenues of at least USD 100,000 and four years of sustained revenue growth. See https://www.investopedia.com/terms/g/gazellecompany.asp#:~:text=A%20gazelle%20company%20is%20a%20young%20fast%2Dgrowing%20enterprise%20with,years%20of%20sustained%20revenue%20growth.

- Number and market capitalization of listed companies in technology sectors

Business Environment

- Internet speed
- Cost of internet
- Internet freedom
- R&D investment
- Availability of various technological services (e.g., payment portals, ride-sharing apps, cryptocurrency)
- Level of English proficiency
- Passport strength
- Availability of startup or nomad visas
- Corporate tax rate and other transactions costs imposed on businesses
- Startup-friendliness of labor laws
- Corruption perception index

Relation of Innovation Profile to Agro-industry

The *1Q 2024 PROSEAD Quarterly Review* assessed the state of Ethiopian industry and manufacturing in the economy[9]. Industry and manufacturing value added (MVA) are low by global standards, with MVA per capita at only USD 46. Meanwhile, services in the agricultural sector require improvement for Ethiopia to improve economic productivity.

The role of innovation and application of new technologies can make a significant contribution to both challenges. Innovation is helpful with product development as well as process improvements, and can be applied along the entire value chain. Key contributors include business investment in research and development (R&D), scientific research, collaboration between universities and industry, and the protection of intellectual property[10]. However, these components are limited in effect if there is a weak business environment that culminates in low levels of private investment. This explains much of why the top 20 countries are ranked as highly as they are. They typically are able to attract high levels of private investment from domestic and foreign sources. Likewise, they typically have strong education and research networks with links to private industry, all with varying degrees of support from government as well as restrictions on how R&D can be commercialized. The intellectual property framework is critical for innovative research in the determination of patents, trademarks, copyrights, and general attractiveness of the country as

[9] See www.iaip.gov.et
[10] See da Silva et al, *Agro-industries for Development*, FAO and UNIDO, 2009, p. 177.

a destination for investment. A look at the top 20 countries shows many are relatively small in population and rely on cross-border networks to help sustain innovation through collaboration.

Ethiopia is at the early stages of technological development in support of innovation. All key areas need development and added resources, while links with private industry likewise need strengthening and deepening. As this is also a challenge in other African countries, Ethiopia would benefit from forging closer links with regional countries in concert with international organizations established to promote such developments. Strategies followed by the UK and Israel (international), European Union countries (regional networks), and Singapore, Dubai and Lagos (regional hub approach) all provide lessons for Ethiopia to consider emulating. However, in the absence of needed ecosystems for innovative R&D linked to startups, incubators and accelerators, this will take time. Likewise, the business environment needs to improve to facilitate investment from domestic and foreign private sector sources.

Specific to PROSEAD, IAIPs, RTCs and their catchment areas are logical sites for incubator and accelerator efforts. Initial work has been done via clusters, but these are typically limited in the application of new technologies. Moreover, the role of government is to ensure adequate provision of infrastructure and utilities, and in many cases, power/electricity is unavailable or unreliable, roads are in poor condition or unpaved, and internet access is slow, unavailable, or inaccessible. Therefore, GOE resources should be focused on strengthening these requirements as well as ensuring an improved business environment to promote business confidence and investment, while leaving much of the innovation agenda to the private sector.

GOE can help with public private partnerships that link public research to industry need, and has done so with some technology initiatives and ATI's efforts in the commercialization of RTCs. In this regard, stakeholders in such initiatives can involve farmers' and business associations, governments/public sector at all levels, NGOs, foundations, development agencies, research institutes/universities, and companies. However, more will be needed to achieve GOE and PROSEAD objectives of contributing to **inclusive economic opportunities expanded through Ethiopia's transition from an agricultural economy to a more industrial one**.

Even basic data represent a challenge and starting point. However, when innovation initiatives are targeted and focused, the building blocks for a more developed ecosystem are put in place and signal to the rest of the market that the business environment is conducive. This is ultimately what helps to build momentum for the long-term endeavor of innovation and entrepreneurship ecosystem development in which the parts are interactive, mutually reinforcing and inter-dependent for progress to be achieved and sustained.

Global Trends in Ag tech or Food tech Innovation

Leading edge innovation in ag tech, food tech and farm tech may not be fully applicable to practices in Ethiopia due to widespread poverty, the small scale of farms, the focus on subsistence, and the general lack of capitalization, automation and mechanization in the sector. However, Ethiopia can start with some and build on progress with time. It is worth noting that among countries and regional hubs focused on food tech are Egypt and Dubai/UAE, thereby offering potential collaboration opportunities through the base they have established. Likewise, Israel is cited in at

least two locations as having a focus on food tech[11]. Given proximity, such collaboration would offer trade and investment opportunities in support of both food security and Ethiopian exports. To the extent that such trade relations have been established, they should represent targets for growth based on innovation-related partnerships.

Generic technologies include biotechnology, bioinformatics, nanotechnology, energy-saving technologies, waste conversion technologies, sensors ("internet of things") and analytical technologies, robotics and automation technologies, and information technologies. This includes the application and adaptation of artificial intelligence for production, food processing, packaging, waste management and logistical support.

Drivers of technological change focus on[12] modified agronomic practices to ensure sound soil management and irrigation/water use. The end goal is often consumer acceptance focused on safety, convenience, choice, and affordability.

To effectively implement appropriate agronomic practices and achieve end goals, agricultural production from the supply side includes improved and faster breeding and reduced use of chemical inputs. There are also overarching considerations related not only to production, but to specific properties of raw materials and ingredients, processing and packaging, and final product development. These overarching considerations through all stages of the production process include:

- Health- and safety-related features of food products, namely:
    - Reduced salt, sugar and fats
    - Enriched fibers
    - Antioxidants
    - Protective compounds
    - Lower energy density
    - Bioavailability
- Environmentally sustainable practices, namely:
    - Waste reduction or prevention
    - Re-use, recycling and waste recovery
    - Composting
    - Reduced energy usage
    - Life cycle analysis

[11] See *Global Startup Ecosystem Index*, 2023.
[12] See Dennis et al, *Agro-industries for Development*, FAO and UNIDO, 2009, p. 95

Key farm management trends today focus on[13]:

- Farm management software/computer and mobile applications
  - Improve operational efficiency
  - Optimize input usage
- Sustainability-related technologies/software and hardware
  - Measure carbon emissions and sequestration
  - Monitor and optimize irrigation systems
  - Estimate sustainability impact scores
- Precision-agriculture hardware
  - Provide real-time measurements of soil fertility and moisture
  - Enhance efficiency of planting, spraying and harvesting
  - Optimize planting populations
  - Reduce pesticide applications
- Remote-sensing technologies/satellite and unmanned aerial vehicles (drones)
  - Monitor crop growth
  - Identify biotic and abiotic stressors
- Agribusiness marketplace and mid-stream technologies
  - Online commodity trading platforms
  - Digital marketplaces tailored to input purchasing
  - Products that enhance food safety, traceability and logistical support
- Farm robotics, automation and electric equipment/advanced field machinery
  - Reduce labor needs
  - Optimize field operations
  - Increase productivity of input application
  - Reduce operating costs

While this agenda may be excessive under current conditions, they represent areas on which Ethiopia can focus to strengthen productivity and the contribution played by agro-industry to the national economy, exports, incomes and job creation.

[13] See *Agtech: Breaking down the farmer adoption dilemma*, McKinsey & Company, February 2023.

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. As noted in the 1Q 2024 PROSEAD report, figures from World Bank and UNIDO suggest the figure is now about 3.4%-4.5% of GDP[14].

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 have been reported earlier by ATI based on 2022/23 production season harvest data[15]. More recent figures for 2023/2024 are presented below (Component 3) which show increases in most categories. Despite increased output, industrialization and higher value-added food and beverage processing have not kept up with opportunities resulting from this increased output.

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 little change from the prior quarter. Leveraged funds approximated 415% of 2017 levels as of June 2024[16], reflecting achievement of the target of 400% set for 2023. However, this is a modest 0.02% increase from the prior quarter, although it does show some private sector investment (nearly USD 5 million) into the parks despite overall low levels relative to original targets[17]. By component[18]:

- 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).

[14] See www.iaip.et.gov
[15] See www.iaip.et.gov
[16] Numerator = USD 600,952,936 for parks plus USD 150,909,984 in investment from private enterprises in parks plus USD 351,929,000 in donor financing. Denominator = baseline 2017 USD 266 million. Therefore, USD 1,103,791,920/USD 266,000,000 ≈ 4.15 times.
[17] By park catchment area, private sector investment figures show declared capital (operational and setting up factories) at USD 93,697,346 at Bure Park, USD 37,074,987 at Bulbula Park, and USD 20,137,651 at Yirgalem Park. This translates into a USD 4.7 million private sector investment increase during the quarter.
[18] A pie chart with these distributions was presented in the PROSEAD *Quarterly Review* in December 2023.

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. The above discussion of the role of innovation and entrepreneurship represents ideas on how some of these improvements can take shape.

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, 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[19]. 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.

Component 1: Park Infrastructure and Capacity

Under PROSEAD, the African Development Bank (AfDB) is the main development partner engaged in support of park infrastructure development. Through an ADF Grant, the Bank's work also includes involvement with UNIDO supporting capacity enhancement and training and other logistical support and operational costs for the Ministry of Industry (MOI), 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 now expected to be completed by December 2024 at the three operating IAIPs, although limited access to foreign exchange represents a continued risk to import capacity needed for building and installation.

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

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 more time will be needed to finalize all infrastructure investments.

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

- 47% of functional waste management plants developed
    - Meki RTC (95%, only wet testing & commissioning remaining)
    - Yirgalem Park (93% completed)
    - Amanuel and Motta RTCs (initial proposed wastewater plant cancelled and process underway to use the funds for installation of transformers to the RTCs
- 47% of functional potable water systems developed
    - Bure Park (84%), with only testing & commissioning still remaining
    - Yirgalem Park 7km HDPE (95% completed)
    - Meki RTC (10.0%), drilling bore holes underway
- Critical access roads
    - Work done by SDG budget other than the project
    - Fund has not been allocated

As for institutional capacity building, six unions and 60 primary cooperatives are now connected to factories in the IAIPs. This is 132% of target, and represents significant progress.

Other indicators focused on numbers of relevant institutions supported, numbers of farmers trained in various VCD packages, number of anchor training institutions equipped to implement the new Agro-processing curricula and related short courses at the regional level, and the number of students who benefit from training and internships with industry disaggregated by gender all remain unchanged from the prior quarter.

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 have stalled in recent quarters.

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[20]	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:

- Inadequate power supply (especially at Bure but also at Bulbula)
- Absence of liquid waste for testing and commissioning (Meki RTC)
- Insecurity/instability

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.

[20] 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.

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[21], results show that:

- A total of USD 7.5 million has been disbursed to farmers in the catchment areas, which is 28% of the target (USD 26.8 million).
- 12,121 farmers had been supported with financing as of May 2024. This constitutes a modest increase from prior quarters.
- Nearly half (48%, or 5,846 among a total of 12,121) of beneficiaries were female. Therefore, the project has succeeded in increasing numbers of beneficiaries since 2023 and its proportion of support to females.

As reported in prior quarterly reports, the August and November 2023 figures represented a significant percentage increase from June 2022 (7,377). This trend has since flattened due to seasonality patterns, and is expected to increase again in the upcoming quarter.

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 4.3% ratio[22] which represents a modest increase from the last quarter.

[21] IFAD's activities are nationwide, with PROSEAD included as one part of IFAD's overall effort.
[22] 12,121/285,000 ≈ 4.3%.

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	12,121 (vs. 11,656 last quarter and 7,377 in 2Q 2023) reached in IAIPs as of February 2024. There has been Modest progress from the last quarter due to limited fund flow in RTCs around the Bure AIP by three RUSACCO/Unions. Results = 4.3% 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: 5,846 as of May 2024 (vs. 5,795 in August and November 2023 and 3,743 in 2Q 2023). Therefore, very modest increase from prior quarter. Results = 5.1% 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. However, amount of loan disbursed to the clients in the area (ACPZs) is USD 7.5 million, or about 28% of the USD 26.8 million target.

IFAD notes the key challenge remains 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.

More positively, IFAD expects a large portion of funds flows through MFIs will be made in the coming two months following the current reporting period. Therefore, the next quarterly report is expected to show significant progress.

Additionally, IFAD has reported progress in negotiations with the European Investment Bank (EIB) to finalize formalities for additional funding[23]. Such funding is expected to fill financing gaps, and will help with a more continuous flow of funds to the sector.

[23] 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. This effort is ongoing, and the FAO has consulted with UNIDO during the process to deepen its understanding of financing and credit shortcomings under Component 2.

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 (ACCs), 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**. The prior PROSEAD Quarterly Review showcased production (output) increases across various commodities and the role contract farming agreements have played in these improvements[24].

More recent data for 2023/2024 show increases in maize, soybean and teff production, offset by modest decreases in wheat and malt barley production. Horticulture registered significant increases in both output and surplus production sold. Therefore, with improvements in access to inputs and strengthened capacity, ATI is achieving success in most areas while still facing challenges in some commodity groups. However, cumulative figures show improvements across all major categories.

Detailed results for the number of clusters linked to agro-industrial value chains (O3.1) show that there was a 15% y-o-y increase in 2023/2024 in seed and fertilizer delivery to farmers in the relevant catchment areas, along with institutional capacity building with cooperatives, producer unions and other agricultural enterprises, and initiatives to improve market information and strengthen market linkages. Relevant indicators include:

- More than 120,000 (15% women) smallholder farmers have been organized under 4,606 FPCs (100% against the project target) in three ACCs;
- About 320,000 (12.3% women) farmers have accessed extension services;
- CBSPs, AOSSs and public research institutes have been instrumental in Early Generation Seed (EGS) production and supplies;
- 90,000 quintal of quality seeds have been produced and distributed to more than 700,000 farmers in the catchment areas in 2023/2024;
- AOSS distributed about 2.9 million liters of agro-chemicals, 260,000 quintals of seeds and 300,000 quintals of fertilizers to 3.1 million SHFs;
- 1.5 million of fruit seedlings were distributed to smallholder farmers across the different regions;
- 10 nurseries have been upgraded/established in Sidama, Amhara and East Shoa.

[24] See *PROSEAD 1Q 2024 Quarterly Review*, March 2024. www.iaip.gov.et

Efforts to increase the participation of women and youth in clusters and producer unions linked to RTCs and companies in the IAIPs (O3.2) continued to make progress in participation levels, market linkages, and capacity enhancement, although results still show a sizeable gap relative to original PROSEAD targets. There has been little change in quarterly results from the last report.

As for farmer incomes (O3.3), the average increase in farmers connected to IAIPs and other markets were 4.0% for male and 1.8% for female farmers, respectively. Both are above target. Particular improvements are materializing in the adoption of pre- and post-harvest technologies, which will also enhance overall quality of output as well as volume. For example, increased use of metal silos and PICS as modern on-farm storage to improve cleaning, sorting, and grading enhance process efficiency, reduce loss, and correspondingly increase incomes. Likewise, increased use of mechanization services for ploughing, spraying, harvesting, threshing and on-farm storage help to increase output and reduce losses. These and other interventions will contribute to rising farmer incomes with time, subject to improvements in warehousing, logistics and investment levels.

These results show progress towards PROSEAD objectives, albeit with continuing gaps relative to targets in O3.1.

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 (-0.23%), Maize (25%), Barley (-4.4%), Soybean (87%), Teff (46%) Most => 3% target
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 ACC; 408 FPCs No change from prior quarter
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	14.6% W and 11% Y No change from prior quarter
O3.3	Average increase earning to farmer on value chains subject to a crop delivery contract, including gender disaggregation	TBD	3.6% for males and 1.5% for females	4% M; 1.8% F Improvements from prior quarter

Key challenges and issues that remain mainly concern security and stability. Insecurity and instability in rural areas makes it more difficult for ATI to carry out its activities and programs.

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[25]. 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 945 students (39% female) in Cooperative Training Programmes (long-term training), of which 154 in the quarter (53 female);
- enroll 8,099 individuals in employment-related short-term training (51% female), of which 433 in the quarter (238 female);
- create three agro-industry-wide training centers (no change).

GIZ is on target to meet or exceed the first indicator target of 960 beneficiaries for long-term training (35%-45% female) in 3Q 2024.

In the case of short-term training (the second indicator), the 8,099 figure approximates 90% of target (9,000), and females account for 51% of beneficiaries (55% female target). Training during the quarter included 145 trained in Hygiene and Food Safety (57% female), 101 trained in Warehouse Management (54% female), 139 trained in Supply Chain Management (65% female), and 48 trained in Forklift Operations (17% female).

Additional training has proceeded in partnership with companies to train managers and employees in the decent work agenda. This training has reached 104 managers (of which 10 female), thereby exceeding the original target of 100 manager beneficiaries but showing little change from the prior quarter at the managerial level. However, the training has benefited 184 workers (of which 82 female), with about 59 (almost entirely female) benefitting during the quarter.

In sum, key achievements during the quarter include:

- 154 (53 female) enrolled into long-term Cooperative Training, of which 945 (369 women) or 98% of the total target plan has been achieved;
- 433 (238 female) short-term trainees enrolled, with a cumulative total of 8,099 (4,148 female), 90% of total target achieved;
- 184 workers (82 women) trained in decent work, and a cumulative 409 (121 female) trained, 68% of target;

[25] 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.

- Decent Work Radio programme in Sidamu Afoo and Gedeuffa versions are currently broadcasting on Bensa FM 94, Dilla University Radio Station, and Fisehagenet Radio Stations, while the Amharic version is not yet broadcasting.

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)	945 students enrolled in Cooperative Training Programmes (long-term training), up from 791 in the prior quarter; 8,099 individuals benefitted from employment-related training (short-term training), up from 7,666 the prior quarter; unchanged from the prior quarter: 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; 104 managers (o/w 10 female) and 184 (82 female) in selected partnering companies completed the decent work agenda training vs. 125 (29 female) the prior quarter

Key challenges and issues that remain include:

- The RIPDCs have struggled to spend available resources under the Financial Agreements provided to them, including Amhara IPDC;
- Dilla RTC (Medium IAIP) falls under Southern Ethiopia Region, which is new and not a signatory to the Financial Agreements;
- Decent Work Radio Programme scale-up in Amharic version is not yet broadcasting in the Amhara Region due to political instability.

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. Some of the short-term training provided during the quarter (Hygiene and Food Safety, Warehouse Management, Supply Chain Management) relate to these areas of opportunity.

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;
- Delays in the implementation of decisions made at higher levels of the governance system (e.g., the PMO Economic Cluster to avail forex for the construction of dedicated power supply for the parks);
- Coordination among government counterparts for a horizontal approach to collaborative support for the parks.

Despite these gaps, the governance structure is in place, and progress has been made since early 2023 after disruption in preceding years due to COVID and civil strife. However, more recently, there has been a slowing of meetings in all regions where parks are active.

UNIDO has introduced a new governance performance indicator to assess governance effectiveness. The Governance rating system accounts for:

- Regular meetings of established governance structures (e.g., Federal Steering Committee, Regional Steering Committees in Amhara, Oromia, Sidama and South Ethiopia, respective technical committees at the federal level and Technical Task Forces at regional levels);
- Key challenges in the parks, and tabling for the relevant governance bodies;

- Decision making at steering committees;
- Implementation of decisions made.

The governance system still requires strengthening to make decision-making and implementation more effective. This will require additional coordination with collaborative institutions like EIC, DBE, NBI, Electric Utility, MOA and other members of the governance system. Some of this is due to the persistent political instability that slows progress. However, as of May 2024, the new governance participation index indicator shows the project demonstrates 65% effectiveness.

Other key indicators as of May 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.
    - 41 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.
    - Recent meetings have included Sidama (May 16-17), Southern Ethiopian Region (April 18-19), and Oromia TTF (May 14).
- New or revised policies, strategies, and procedures recommended to policy makers (IAIP authorities) have exceeded targets, albeit with no change in this most recent quarter.
- 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.
- The number of development partners mobilized into the IAIP governance system remains at seven.

PROSEAD Component 5 Indicators, Targets and Results				
	Indicator	**Baselines**	**Target**	**Results**
O5	Rate of progress to achieve agro-industrial governance, coordination and participation	TBD	100%	65%
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. No change from prior quarter.
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. No change from prior quarter.
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. No change from prior quarter.
O5.4	Cumulative number of firms located in the IAIP with improved management practices		200	8. No change from prior quarter.

Key challenges and issues that remain and are unchanged from prior quarters 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.

Several initiatives are currently being designed to address these challenges.

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