

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA - INTEGRATED AGRO-INDUSTRIAL PARKS SUPPORT PROJECT (IAIPSP): EUR 10.1 MILLION PAGODA GRANT FROM THE 11<sup>th</sup> EUROPEAN DEVELOPMENT FUND OF THE EUROPEAN COMMISSION**

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**I. INTRODUCTION**

**1.1 The Project**

The ADF Board of Directors approved on 5<sup>th</sup> December 2018<sup>1</sup> a grant of an amount not exceeding eleven million units of account (UA 11,000,000) (the “ADF Grant”) to the Federal Democratic Republic of Ethiopia (the “Recipient” or “Ethiopia”) to finance part of the costs of the Ethiopia –Integrated Agro-Industrial Parks Support Project (IAIPSP) (the “Project”).

**1.2 Project Objectives:** The Project development objectives are to (a) create a better environment for increased investment in agro-food and allied sectors, (b) reform a fragmented and supply driven agricultural production system into one that is organized and demand driven, through the integration of small holder farms, small scale processing enterprises and allied industry into commercial value chains; and (c) improve human capacities and skills of rural populations to benefit from new agribusiness employment opportunities.

**1.3 Project Description:** The Project supports the development of four (4) Integrated Agro-Industrial Parks (IAIPs) in Tigray (North), Amhara (North West), Oromia (Central) and Southern Nations, Nationalities and People (SNNP) (South) Regions by providing part of the infrastructure required for agro-industrial activities on the IAIPs and developing the requisite skills and agricultural value chain capacity to ensure competitiveness, productivity and inclusivity in their operations. The IAIPs will attract private sector investments and enhance a much-desired agricultural transformation of the country, create jobs, boost exports, and reduce urban and rural poverty.

**II. PAGoDA FRAMEWORK ARRANGEMENT**

**2.1** It should be recalled that the Board of Directors approved: (a) the European Commission and African Development Bank Group Pillar Assessed Grant or Delegation Agreement (PAGoDA) on 12 July 2017<sup>2</sup>; and (b) the Framework Arrangement between the European Commission (EC) and the African Development Bank Group on Actions administered by the African Development Bank Group and funded or co-funded by the European Union (EU) (the “PAGoDA Framework Arrangement”) which was signed on 25 September 2017.

**2.2** Pursuant to the PAGoDA Framework Arrangement, the Bank is eligible to receive grant financing directly from various funds of the EC to be utilized to bridge the funding gap of public sector programmes in view of promoting and facilitating economic growth and the achievement of greater development outcomes for Regional Member Countries.

**III. EU PAGODA CO-FINANCING**

**3.1** The purpose of this addendum is to seek the approval of the Board of Directors of the Bank and the Fund concerning the provision of a grant to Ethiopia from the resources approved by the European Commission (EC) from the 11<sup>th</sup> European Development Fund (EDF) under the

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<sup>1</sup> Resolution F/ET/2018/145

<sup>2</sup> Resolution No. B/BD/2017/124 - F/BD/2017/87

National Indicative Program for Ethiopia (NIP), of an amount not exceeding ten million, one hundred thousand Euros (Euro 10,100,000) (the “EU Grant”) to finance part of the costs of Project and the Bank’s administrative fees.

- 3.2 In accordance with the PAGO DA Framework, administrative fees to be paid by the EU to the Bank will be calculated at a rate not exceeding 7% of the direct eligible costs as defined under Article 18 of the PAGO DA General Conditions. This amount is to be provided by the EU on a reimbursable basis.
- 3.3 The indicative breakdown of the EU Grant, by component and by expenditure category is shown in the tables below in paragraph 3.3.1 and 3.3.2 below.

**3.3.1 Estimated Project costs by component in EUR Million:**

Components	Amount in EUR
A. Enabling Infrastructure for Agro Industrial Development	9,139,252.34
B. Capacity Building for Sustainable Agro Industrialization	300,000.00
C. Project Coordination and Management	-
D. Banks Administrative fees and remuneration (7% eligible costs reimbursable)	660,747.66
<b>Total</b>	<b>10,100,000</b>

**3.3.2 Expenditure category financed by the EU Grant:**

Expenditure category	Amount in EUR
Works	9,139,252.34
Services	300,000.00
Bank’s administrative fees and remuneration(7% eligible costs reimbursable)	660,747.66
<b>Total</b>	<b>10,100,000</b>

**IV. IMPLEMENTATION**

4.1 In accordance with the PAGO DA Framework Arrangement, the Bank applies its own procurement, accounting, internal control and audit procedures, which have been positively assessed during the *ex-ante* evaluation of the pillars by the EC.

**4.2 PROCUREMENT**

4.2.1 **Rule of Origin:** In order to align with the ADF eligibility rules, and as provided for in the PAGO DA Framework Arrangement, Management requests the Board to permit, in accordance with Article 17(1) d of the Agreement Establishing the Bank, the procurement of goods, works and services using the resources of the EU Grant, to be open to all countries including those that are not Member States of the Bank.

4.2.2 **Procurement Procedures:** Procurement using the EU Grant will be in accordance with the procurement procedures for goods, works and services provided for in the Project Appraisal Report, technical annexes and the procurement plan.

#### 4.3 **FINANCIAL MANAGEMENT AND DISBURSEMENT**

4.3.1 The applicable financial management, disbursement and financial and accounting audit rules will be those set out in the PAGO DA General and Special Conditions, the Appraisal Report and the Technical Annexes. The EU Grant will be disbursed to the Bank upon fulfilment of the conditions precedent to disbursement.

#### 4.4 **LEGAL FRAMEWORK**

4.4.1 **Legal Instruments.** Pursuant to the PAGO DA Framework Arrangement, and upon Board approval of this Addendum, the Bank and the European Commission will enter into a Delegation Agreement for co-financing the Project. The Delegation Agreement will define the activities entrusted to the Bank for the implementation of the Project. It will lay down the implementation arrangements, spell out the rules governing the payment of the EU contribution and define the relationship between the Bank and the EU.

4.4.2 Additionally, a Grant Agreement will be signed between the Bank and the Recipient. To the extent applicable, some of the obligations entered into by the Bank with respect to the EC, will be transferred to the Recipient. They include *inter alia*, requirements regarding implementation arrangements, integrity covenants, reporting and audit.

4.4.3 **Conditions:** The conditions precedent to the first disbursement of the EU Grant as well as the other conditions will be, to the extent practicable, the same as those provided for in the ADF Agreement.

#### V. **RECOMMENDATION**

5.1 Management recommends that the Board of Directors of the Bank permit the procurement of goods, works and services that are financed by the resources of the EU Grant to be open to all countries including those that are not member states of the Bank.

5.2 Management further recommends that the Boards of Directors of the Bank and the Fund approve the proposed grant to the Federal Democratic Republic of Ethiopia, in an amount not exceeding Ten Million, One Hundred Thousand Euros (EUR 10,100,000) (including Bank's administrative fees and remuneration) from the 11<sup>th</sup> EDF NIP resources approved by the EC under the PAGO DA framework for the co-financing of the Project, under the terms and conditions set forth in this Addendum, the Delegation Agreement, the Project Appraisal Report, and the Standard Conditions Applicable to Grants Made by the African Development Bank and the African Development Fund from the Resources of Various Funds.