DOCUMENT OF
THE WORLD BANK

**FOR OFFICIAL USE ONLY**

REPORT NO: 126766-ET

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

FROM THE IDA18 REGIONAL SUB-WINDOW ON REFUGEES
IN THE AMOUNT OF SDR 58 MILLION
(US$83.33 MILLION EQUIVALENT)

AND A PROPOSED GRANT

IN THE AMOUNT OF SDR 82.6 MILLION
(US$118.67 MILLION EQUIVALENT)
INCLUDING US$83.34 MILLION EQUIVALENT
FROM THE IDA18 REGIONAL SUB-WINDOW ON REFUGEES

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

PROGRAM-FOR-RESULTS/INVESTMENT PROJECT FINANCING
ECONOMIC OPPORTUNITIES PROGRAM

June 4, 2018

Finance, Competitiveness and Innovation/Social Protection and Jobs Global Practice
Africa Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective May 31, 2018)

| | | |
|---|---|---|
| Currency Unit | = | Ethiopian Birr (ETB) |
| ETB 27.42 | = | US$1 |
| US$1.44 | = | SDR 1 |

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AM | Annual Multiplier |
| ARRA | Administration for Refugee and Returnee Affairs |
| B2B | Business-to-Business |
| BI | Budgetary Institution |
| BoLSA | Bureau of Labor and Social Affairs (regional) |
| CEO | Chief Executive Officer |
| CGE | Computable General Equilibrium |
| CJC | Competitiveness and Jobs Creation Project |
| CPF | Country Partnership Framework |
| CRM | Customer Relationship Management |
| CRRF | Comprehensive Refugee Response Framework |
| CSA | Central Statistical Agency |
| DFID | U.K. Department for International Development |
| DLI | Disbursement-linked Indicator |
| DRDIP | Development Response to Displacement Impacts Project |
| E&S | Environmental and Social |
| EAC | Ethics and Anticorruption |
| EFY | Ethiopian Fiscal Year |
| EIB | European Investment Bank |
| EIC | Ethiopian Investment Commission |
| EPP | Employment Promotion and Protection |
| ESSA | Environmental and Social Systems Assessment |
| FDI | Foreign Direct Investment |
| FEACC | Federal Ethics and Anticorruption Commission |
| FPPA | Federal Public Procurement Agency |
| GBV | Gender-based Violence |
| GDP | Gross Domestic Product |
| GoE | Government of Ethiopia |
| GRM | Grievance Redress Mechanism |
| GTAP | Global Trade Analysis Project |
| GTP | Growth and Transformation Plan |
| HPR | House of Peoples' Representatives |
| IBEX | Integrated Budget and Expenditure |
| IDA | International Development Association |
| IEO-MDTF | Increasing Economic Opportunities for Ethiopians and Refugees Multi Donor Trust Fund |
| IFC | International Finance Cooperation |
| IFMIS | Integrated Financial Management Information System |
| IFR | Interim Financial Report |

| | |
|---|---|
| IFRS | International Financial Reporting Standard |
| IFSA | Integrated Fiduciary System Assessment |
| ILO | International Labour Organization |
| INT | Integrity Vice Presidency |
| IPDC | Industrial Parks Development Corporation |
| IPF | Investment Project Financing |
| IPFMR | Implementing Partner Financial Monitoring Report |
| M&E | Monitoring and Evaluation |
| MDTF | Multi-Donor Trust Fund |
| MoFEC | Ministry of Finance and Economic Cooperation |
| MoLSA | Ministry of Labor and Social Affairs |
| MoU | Memorandum of Understanding |
| MTFF | Medium-term Fiscal Framework |
| NBE | National Bank of Ethiopia |
| NRC | Neighborhood Relations Committee |
| OFAG | Office of Federal Auditor General |
| OSS | One Stop Shop |
| PAD | Program Appraisal Document |
| PAP | Program Action Plan |
| PBS | Promoting Basic Services |
| PCU | Project Coordination Unit |
| PDO | Program Development Objective |
| PEFA | Public Expenditure and Financial Accountability |
| PEPE | Private Enterprises Program Ethiopia |
| PES | Public Employment Service |
| PFM | Public Financial Management |
| PforR | Program for Results |
| POM | Program Operations Manual |
| PPA | Procurement and Property Administration |
| PPSD | Project Procurement Strategy Document |
| REACC | Regional Ethics and Anticorruption Commission |
| SBD | Standard Bidding Document |
| SME | Small Medium Enterprise |
| TTF | Transformation Triggering Facility |
| UIIDP | Urban Institutional Infrastructure Development Program |
| UNHCR | United Nations High Commissioner for Refugees |

| | |
|---|---|
| Regional Vice President: | Makhtar Diop |
| Global Practice Vice President: | Jan Walliser |
| Country Director: | Carolyn Turk |
| Practice Manager(s): | Niraj Verma, Robert Chase |
| Task Team Leader(s): | Jade Ndiaye, Senidu Fanuel, Lucian Bucur Pop |

**ETHIOPIA**
**Economic Opportunities Program**

**Table of Contents**


**I. STRATEGIC CONTEXT .......... 1**

*A. Country Context.......... 1*

*B. Sectoral and Institutional Context .......... 2*

*C. Relationship to the CAS/CPF and Rationale for Use of Instrument .......... 6*

*D. Government Program .......... 7*

**II. PROGRAM DESCRIPTION .......... 9**

*A. Program Development Objectives (PDO) and Key Results.......... 9*

*B. PforR Program Scope.......... 10*

*C. Disbursement Linked Indicators and Verification Protocols .......... 13*

*D. Capacity Building and Institutional Strengthening for PforR .......... 20*

**III. PROGRAM IMPLEMENTATION .......... 21**

*A. Institutional and Implementation Arrangements .......... 21*

*B. Results Monitoring and Evaluation .......... 22*

*C. Disbursement Arrangements .......... 23*

**IV. ASSESSMENT SUMMARY .......... 23**

*A. Technical .......... 23*

*B. Fiduciary .......... 25*

*C. Environmental and Social Effects.......... 30*

*D. Risk Assessment .......... 31*

*E. Program Action Plan.......... 34*

**Annex 1a: Detailed Program Description .......... 35**

**Annex 1b: Description of the IPF instrument .......... 42**

**Annex 2: Results Framework Matrix.......... 56**

**Annex 3: Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols .......... 63**

**Annex 4: Summary Technical Assessment .......... 81**

**Annex 5: Summary Fiduciary Systems Assessment .......... 97**

**Annex 6: Summary Environmental and Social Systems Assessment ........ 120**

**Annex 7: Systematic Operations Risk Rating (SORT) ........ 127**

**Annex 8: Program Action Plan ........ 131**

**Annex 9: Implementation Support Plan ........ 135**

**Annex 10: Complementary Projects, Lessons Learned and Links with Current Operations ........ 137**

**Annex 11: Description of Refugee Groups in Ethiopia ........ 142**

**Annex 12: Map of Ethiopia Including Industrial Park and Refugee Camp Locations ........ 144**

***PAD DATA SHEET***

***Ethiopia***

*Economic Opportunities Program*

**PROGRAM APPRAISAL DOCUMENT**

*Africa*

*Finance, Competitiveness and Innovation/Social Protection and Jobs Global Practices*

## Basic Information

| | | | |
|---|---|---|---|
| Date: | June 26, 2018 | Sectors: | Finance, Competitiveness and Innovation, Social Protection and Labor |
| Country Director: | Carolyn Turk | Themes: | Investment Climate, Jobs, Trade, Spatial |
| Practice Manager<br>Global Practice Vice President: | Niraj Verma/Robert Chase<br>Jan Walliser | | Development and Skills |
| Program ID: | P163829 | | |
| Team Leader(s): | Senidu Fanuel, Lucian Bucur Pop, Jade Ndiaye | | |

| | | | | |
|---|---|---|---|---|
| Program Implementation Period: | Start Date: | July 19, 2017 | End Date: | June 30, 2024 |
| Expected Financing Effectiveness Date: | | July 31, 2018 | | |
| Expected Financing Closing Date: | | December 31, 2024 | | |

## Program Financing Data

| | | | | | |
|---|---|---|---|---|---|
| [ ] | Loan | [ X ] | Grant | [ ] | Other |
| [ X] | Credit | | | | |

**For Loans/Credits/Others (US$, Million):**

| | | | | | |
|---|---|---|---|---|---|
| Total Program Cost: | | 333.6 | Total Bank Financing: | | 202 |
| Total Cofinancing: | | 87.5 | Financing Gap: | | 0 |

.

| **Financing Source** | **Amount** | |
|---|---|---|
| BORROWER/RECIPIENT | US$44.09 million | |
| International Development Association (IDA) | US$202 million | |
| Multi-donor Trust Fund | US$87.5 million | |
| Total | US$333.6 | |

| | | | |
|---|---|---|---|
| Borrower: Federal Democratic Republic of Ethiopia | | | |
| Responsible Agency: Ministry of Finance and Economic Cooperation (MoFEC) | | | |
| Contact: | Fisseha Abera | Title: | Director |

| | | | |
|---|---|---|---|
| Telephone No.: | +251 11 157 94 54 | Email: | faberrak@gmail.com |
| Responsible Agency: Ethiopian Investment Commission | | | |
| Contact: Dr. Belachew Mekuria Fikre | | Title: Commissioner | |
| Telephone No.: | +251 11 551 0033 | Email: | Belachew.Mekuria@Ethio-invest.com |

| Fiscal Year | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | | |
|---|---|---|---|---|---|---|---|---|---|
| Annual | 60 | 29.4 | 41 | 39.2 | 54.8 | 43.5 | 21.6 | | |
| Cumulative | 60 | 89.4 | 130.4 | 169.6 | 224.4 | 267.9 | 289.5 | | |

**Program Development Objective(s)**

To provide economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way

## Compliance

**Policy**

| | |
|---|---|
| Does the program depart from the CAS in content or in other significant respects? | Yes [ ] No [ X ] |
| Does the program require any waivers of Bank policies applicable to Program-for-Results operations? | Yes [ ] No [ X ] |
| Have these been approved by Bank management? | Yes [ ] No [ ] |
| Is approval for any policy waiver sought from the Board? | Yes [ ] No [ X ] |

**Overall Risk Rating: High**

**Legal Covenants**

*Sections and Description*
Carry out the Program Action Plan, or cause the Program Action Plan to be carried out, in accordance with the schedule set out in the said Program Action Plan and in a manner satisfactory to the Association. Schedule 2 Section I.B.1(a) of the Financing Agreement.

*Sections and Description*
Three months from effective date, prepare, adopt and implement an Operations Manual, approved by the Association setting out detailed institutional, administrative, financial, technical and operational guidelines and procedures for the implementation of the Program. Schedule 2 Section I.C of the Financing Agreement.

*Sections and Description*
One year from effective date, develop and commence implementation of a gender and protection action plan for vulnerable people (such as children and women), in accordance with terms of reference acceptable to the Association, including focus on discrimination, gender-based violence, related site-specific standard operating procedures, and establishment of a women friendly environment (such as, child care center, and a safe transportation plan for women working in industrial parks). Schedule 2 Section I.B.1(b) of the Financing Agreement

**Conditions**

| *Type* | *Description* |
|---|---|
| Effectiveness | The Association is satisfied that Recipient has an adequate refugee protection framework. Article 5 of the Financing Agreement. |
| Effectiveness | The Recipient's Refugees Proclamation has been passed by the House of Representatives, signed by the President and published in the Recipient's Federal Negarit Gazette. Article 5 of the Financing Agreement. |

| | |
|---|---|
| Effectiveness | A Project Coordinating Unit has been established within EIC, with the following staff in place: a PIU Coordinator, Financial Management Specialist, and Procurement Specialist, all with qualifications, experience and terms of reference acceptable to the Association. Article 5 of the Financing Agreement. |
| Withdrawal | For purposes of Section 2.03 of the Program General Conditions, for DLRs achieved prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 17,900,000 from the Grant and SDR 12,700,000 from the Credit may be made for such DLRs achieved prior to this date but on or after [July 19, 2017]. Schedule 2, Section IV.B.1(a) of the Financing Agreement. |
| Withdrawal | The Recipient may withdraw an amount not to exceed SDR 6,200,000 from the Grant and SDR 4,400,000 from the Credit subject to conditions in the agreement. Schedule 2, Section IV.B.2. |

## Team Composition

### Bank Staff

| Name | Title | Specialization | Unit |
|---|---|---|---|
| Senidu Fanuel | TTL | Competitive industries, manufacturing, private sector development, SME development | GFCAE |
| Lucian Bucur Pop | TTL | Social protection, labor | GSP01 |
| Jade Ndiaye | TTL | Fragility, conflict and violence, private sector development, entrepreneurship | GFCAE |
| John Speakman | Advisor - Technical lead | Refugees, industrial clusters, trade corridors | GFCME |
| Victoria Strokova | Senior Economist | Jobs, skills and labor productivity | GPSJB |
| Manju Haththotuwa | Lead Private Sector Specialist | Innovation, technology, entrepreneurship, competitive industries | GFCAE |
| Qaiser Khan | Lead Economist | Safety nets and basic services | GSPO1 |
| Sebnem Sahim | Senior Economist | Economic modeling | GEN03 |
| Syed Estem Dadul Islam | Senior Results Measurement Specialist | Monitoring and evaluation | CSECR |
| Elsa Araya | Senior Public Sector Specialist | Governance | GG0AE |
| Tom Bundervoet | Senior Economist | Poverty and labor market | GPV01 |
| Mamo Mihretu | Senior Private Sector Specialist | Investment climate and investment promotion | GTCA1 |
| Benjamin Herzberg | Senior Private Sector Specialist | Industrialization, Investment climate and investment promotion | GFCMW |
| Sherif Muhtaseb | Senior Operations officer | Sector-specific investment climate, economic zones, investment policy, investment facilitation | GFCIS |
| Samuel Mulugeta | Economist | Expenditure framework analysis | GSP01 |
| Mengistu Achew | Operations Officer | Financial sector specialist | GFCAE |
| Abiy Demissie Belay | Senior Financial Management Specialist | Financial Management | GG0AE |
| Shimelis Woldehawariat | Senior Procurement Specialist | Procurement | GGOPA |
| Margaret Png | Lead Counsel | Legal | LEGAM |
| Emilie Suarez Santos | Legal Analyst | Legal | LEGAM |
| Maiada Mahmoud Abdel Fattah Kassem | Finance Officer | Disbursement | WFALA |

| | | | |
|---|---|---|---|
| Yalemzewud Simachew Tiruneh | Social Safeguards Specialist | Social Safeguards | GSU07 |
| Simon Sottsas | Senior Social Development Specialist | Social Safeguards | GSU07 |
| Yacob Wondimkun Endaylalu | Environmental Safeguards Specialist | Environmental Safeguards | GEN01 |
| **Non Bank Staff** | | | |
| **Name** | **Title** | **City** | |
| Helen Akanisi | Consultant, Refugees | Washington, D.C. | |
| Nicola Palmer | Consultant, Institutions/Governance | Washington, D.C. | |
| Yehualashet Astera | Consultant, Refugees | Addis Ababa | |
| Fantu Farris | Consultant, Investment Climate | Addis Ababa | |
| Tilahun Kassahun | Consultant, Investment Climate | Addis Ababa | |

# I. STRATEGIC CONTEXT

## A. Country Context

1. **Ethiopia is a landlocked country that has experienced impressive growth and gains in development in the past two decades.** Gross domestic product (GDP) growth averaged more than 11 percent per year, higher than the average for the region and exceeding that of other low-income countries. The Government's accelerated, broad-based economic development plan paved the way for significant reductions in poverty—from 44 percent to 24 percent from 2000 to 2016—which has been accompanied by moderate improvements in access to education and health care.

2. **Despite accelerated progress, Ethiopia remains challenged by the need to create economic opportunities for its fast-growing population of over 100 million, including for an estimated 20 million Ethiopians living below the poverty line.** GDP per capita was estimated at US$711 in 2016, with more than 70 percent of the population engaged in the agricultural sector. Demographic transition has presented opportunities and challenges for the country, with an increasingly urbanized, young working-age population. In 2013, 26.3 percent of urban youth was unemployed, compared to 21.7 percent of the urban working-age population in general. Although overall unemployment is low (5.2 percent), underemployment in Ethiopia is high (22 percent) and around one-fifth of wage workers earned below the poverty line in 2013. Though regional differences in poverty appear to have converged, the Government recognizes that certain peripheral regions are lagging. The Developing Regional States constitute four regions (Afar, Benishangul-Gumuz, Gambella, and Somali Regional State) with acknowledged greater development needs relative to other Ethiopian regions.

3. **Set against this background, Ethiopia hosts more than 900,000 registered refugees and asylum seekers and is the second largest refugee-hosting country in Africa after Uganda.** Ethiopia has had an open-door policy for refugees since its present government came to power in 1991, permitting refugees and asylum seekers the right to reside in Ethiopia in officially designated camps managed by the Administration for Refugee and Returnee Affairs (ARRA) with the support of the United Nations High Commissioner for Refugees (UNHCR) and other humanitarian partners (see annex 12 for locations of major refugee camps). Most refugees are of Somali, Eritrean, Sudanese, and South Sudanese origin and live with limited socioeconomic rights, in some cases surviving entirely on humanitarian aid (box 1 provides basic demographic information on refugees). Three out of the four of the Developing Regional States are major refugee-hosting regions, putting pressure on already scare resources and services. The Government of Ethiopia (GoE) has recognized the difficulty of this situation, including the limitations of continuing humanitarian aid and has proposed measures to reduce idleness and aid dependency.

**Box 1. Refugees in Ethiopia**

Based on the latest UNHCR estimates (as of January 31, 2018) 901,236 registered refugees and asylum seekers from over nineteen countries reside in Ethiopia in periphery locations that are characterized by high levels of poverty, poor infrastructure and low human development. More than half of refugees are children and around 10 percent are unaccompanied minors. In total there are 244,338 refugee households; violent conflict has left a large proportion of refugee households headed by women. The conflict in neighboring South Sudan has resulted in a large recent influx of refugees of South Sudanese origin (now constituting almost half of the refugee population), but many refugee groups have been living in Ethiopia for protracted periods in some cases for over 20 years. Overall the educational attainment of refugees is low: 41 percent of working-age refugees have no education, 42 percent have primary and intermediate education, and 17 percent of refugees have secondary education and above. [a] There are large disparities between men and women, with women in general being significantly less educated. Nearly 54 percent of women refugees have no education at all, compared to 26 percent among men.

Refugee groups of Somali, Eritrean, Sudanese, and South Sudanese origin share a common ethnicity and in some cases kinship links with their host communities in Ethiopia. Pastoralists of Somali and South Sudanese origin, for example, have a history of cross-border seasonal migration into Ethiopia. These links render the concept of an international border invalid for some of these peoples, as well as complicating the concepts of 'host' and 'refugee'. Tribal identities also inform economic activity, with strongly defined gender roles and expectations for which types of work are acceptable, and not acceptable. Each of the refugee hosting regions has its own complex political economy and language. The degree of volatility in Gambella and Somali Regional State is high, with both refugee hosting areas displaying acute resource competition and tensions between tribal and ethnic groups. A detailed description of refugee groups and dynamics is included in annex 11.

*Note:* a. Above secondary includes university, technical and vocational education, and other, but in total they represent a very small percentage: 5 percent of the total for men and less than 1 percent for women.

4. **The GoE has made an ambitious and unprecedented commitment toward a more comprehensive refugee response, shifting from a focus on encampment to more sustainable management of refugee populations.** In September 2016, at the United Nations Summit on Refugees in New York, the GoE committed to nine pledges to improve refugee rights and services, becoming one of the first countries to initiate the implementation of the United Nations-backed Comprehensive Refugee Response Framework (CRRF), which focuses internationally on (a) measures to ease pressure on countries that welcome and host refugees, (b) supporting the self-reliance of refugees, (c) expanding access to resettlement and other complementary pathways, and (d) fostering conditions that enable refugees to return voluntarily to their home countries. While initial reforms target a subset of the refugee population, they constitute a potentially groundbreaking shift in the previous approach, which has largely assumed that refugees would return to their countries of origin and should be supported in camps until that time comes.

5. **Recognizing the opportunity to link socioeconomic opportunities for refugees with the broader industrialization agenda, the Government is taking bold steps to give refugees formal status and open its labor market to accommodate refugees despite having a demographic bulge and significant demand for jobs and constraints.** This high-level pledge – referred to as the Jobs Compact - is a commitment to create economic opportunities, including in industrial parks, with a percentage dedicated to refugees.[1] The commitment to provide opportunities for refugees is strongly in line with the World Bank Group's eligibility criteria for IDA18 regional sub-window on refugees funding and links closely to the broader response on refugees, which highlights the need for sustainable solutions for refugee protection and service provision. Moreover, the government's pledge is regarded as providing a global public good in terms of addressing universal challenges linked to forced displacement, human security, and development. The initiative combines the Government's recent high-level changes to the refugee policy with the country's industrialization strategy, providing refugees economic opportunities and aligning this commitment with the country's structural transformation process. Both strategies are anchored in a broader set of reforms.

## B. Sectoral and Institutional Context

*Refugee Policy*

6. **The CRRF is at the center the Government's new refugee policy; its implementation comprises four key elements:** (a) the implementation of nine pledges (see box 2) which target a range of socioeconomic benefits for refugees, including expansion of the out-of-camp policy, improvements in rights and services, and access to work and livelihoods, (b) strengthening of the legal and policy framework, (c) supporting of host populations, and (d) strengthening of coordination mechanisms. ARRA and UNHCR are leading efforts to collaborate with donors, line ministries, and nongovernmental organizations to materialize the pledges into outcomes designed to strengthen the overall protection and assistance provided to refugees. Ultimately, the CRRF will allow refugees to become more independent and benefit from greater

[1] The Government's initial road map included a target of 100,000 economic opportunities, of which 30,000 would be for refugees.

integration into Ethiopian society. Various technical committees covering the six thematic areas of the pledges have been set up to guide their operationalization under the overall leadership of the CRRF Steering Committee Chairs comprising ARRA, the Ministry of Finance and Economic Cooperation (MoFEC), UNHCR, and a development partner adviser (the World Bank).

7. **The Jobs Compact pledge allows for the formal integration of refugees in Ethiopia's labor market.** Currently, formal employment and freedom of movement for refugees, as adopted in the 1951 convention relating to the status of refugees, are taken as recommendations rather than legally binding obligations.[2] Except for approximately 20,000 Eritrean refugees who reside in Addis Ababa under an out-of-camp scheme, most refugees reside in camps with no prospects for formal employment. The pledges would extend wage earning employment to refugees, including in the manufacturing sector. Critically, they would also create the necessary enabling conditions for refugees to live out of camp, access improved services, protections and documentation. The pledges are ambitious and far-reaching, but will take time to implement and require the substantial support of the donor community.

**Box 2. The GoE's Road Map to Improve the Rights of and Services for Refugees - Nine Pledges**

**Out-of-camp Pledge**

- Expansion of the 'Out-of-camp' policy to benefit 10 percent of the current total refugee population

**Education Pledge**

- Increase of enrollment in primary, secondary, and tertiary education to all qualified refugees without discrimination and within the available resources

**Work and Livelihoods Pledges**

- Provision of work permits to refugees and to those with permanent residence ID, within the bounds of domestic law
- Provision of work permits to refugees in the areas permitted for foreign workers, by giving priority to qualified refugees
- Making available irrigable land to allow 100,000 people (among them refugees and local communities) to engage in crop production
- Building industrial parks where a percentage of jobs will be committed to refugees

**Documentation Pledges**

- Provision of other benefits such as issuance of birth certificates to refugee children born in Ethiopia, and the possibility of opening bank accounts and obtaining driving licenses [a]

**Social and Basic Services Pledge**

- Enhance the provision of basic and essential social services.

**Local Integration Pledge**

- Allowing for local integration for those protracted refugees who have lived for 20 years or more in Ethiopia

*Source:* Road Map for the Implementation of the Federal Democratic Republic of Ethiopia Government Pledges and the Practical Application of the CRRF in Ethiopia (November 29, 2017)

*Note:* a. This also includes the provision of vital events registration services to refugees.

8. **The new Refugees Proclamation encompasses the rights and freedoms for refugees associated with the pledges in one legally binding document and is essential to establish the legal foundation to enable the planned reforms.** The Proclamation has been approved by the Council of Ministers and will be tabled before Parliament. The passage of the Proclamation will pave the way for a further set of

---

[2] This is an approach adopted by the Government to protect the national labor market and allow refugees to work only upon fulfilling certain criteria.

regulations and directives that will guide the operationalization of the pledges. The promulgation of the Refugees Proclamation is one of the effectiveness conditions for the IDA financing of the Program.

*Industrialization Strategy*

9. **The Jobs Compact is being implemented in the context of the Government's plans for rapid industrialization and structural transformation, with the ambitious aim of transitioning Ethiopia's economy to lower-middle-income status by 2025.** Ethiopia's unique state-led and state-financed development model has focused primarily on public investment to address infrastructure and human capital deficits; an approach where the World Bank is engaged with the GoE, but which the World Bank's Systematic Country Diagnostic acknowledges may begin to show limits in terms of future debt sustainability and private sector crowing out.[3] The Government's Growth and Transformation Plan II (GTP II, 2016–2020) focuses on large-scale safety net programs, expansion of basic services, and public investment in infrastructure. The key drivers of the vision identified in the GTP II are (a) leveraging of private investment in general and foreign direct investment (FDI), (b) implementation of measures that enhance export competitiveness and diversification, (c) development of industrial parks, (d) provision of quality infrastructure, and (e) skills development. The GTP II envisions Ethiopia as a lower-middle-income country by: (a) creating 2 million jobs in medium and large businesses by 2025, (b) increasing the contribution of manufacturing to overall GDP from the current level of under 5 percent to 18–20 percent, and (c) ensuring that the manufacturing sector contributes 50 percent of exports by 2025.

10. **A key focus of the Government's industrial policy and transition to manufacturing is on the establishment of industrial parks throughout the country, which need to do more to attract investors, mobilize workers, and deal with externalities created by this fast-paced development.** Currently, the Government has four publicly-owned operational industrial parks (Bole Lemi I, Hawassa, Mekelle and Kombolcha). Bole Lemi I and Hawassa are fully operational with spaces leased out to investors. Kombolcha and Mekelle were both inaugurated in July 2017 (with almost full subscription of space). Dire Dawa, Bole Lemi II, Kilinto, Adama, Jimma, Debree Birhan, and Bahir Dar industrial parks are under construction (a map of the locations of the industrial parks is shown in annex 12). Additional private parks such as Arerti, Eastern, Velocity, Huajian, and George Shoe are under construction. Key sectors prioritized for development include textiles, apparel, leather and leather products, agro-processing, pharmaceuticals, and chemicals. Most of the existing/operational industrial parks focus on the garment sector. For example, Bole Lemi I, Hawassa, Mekelle, and Kombolcha are all currently (or expected to) focus on garment and textiles. Underpinning the Government's industrialization vision are several government entities, including the Prime Minister's office, Ethiopian Investment Board, Ethiopian Investment Commission (EIC), Industrial Parks Development Corporation (IPDC), Ministry of Industry, and MoFEC.

11. **Ethiopia's employment strategy, including the Jobs Compact, has emphasized the need for jobs in more productive sectors, especially manufacturing.** Indeed, the GTP II emphasizes the role of manufacturing enterprises as drivers for industrial development and the source of quality and sustainable jobs. The agricultural sector, employing more than 70 percent of the population, is not expected to keep pace with the growth of the working-age population, necessitating a fundamental movement of labor to higher productivity sectors (box 3 covers some of the key features and issues related to the labor market). Ethiopia has several advantages that it can leverage to harness the investment needed for job growth, including large infrastructure investments, low labor costs, cheap power, ideal climate, and established market access with the European Union and United States.

---

[3] World Bank. 2014. "Ethiopia Systematic Country Diagnostic: Priorities for Ending Extreme Poverty and Promoting Shared Prosperity."

**Box 3. Ethiopia's Labor Market**

Despite progress in recent years, Ethiopia faces several jobs challenges: (a) creating a sufficient number of jobs for a rapidly growing labor force; (b) improving labor productivity, earnings, and quality of these jobs; and (c) ensuring access to jobs for more vulnerable population, especially those in rural areas, youth, and women.

**Creating sufficient jobs.** Ethiopia needs to create 1.7 million jobs to fully absorb the growing labor force each year. While overall labor market conditions have improved in the past 10 years, employment outcomes remain precarious. Although unemployment [a] decreased from 8.4 percent in 1999 to 5.2 percent in 2013, with a significant decrease in urban areas (from 35.9 percent in 1999 to 21.7 percent in 2013), underemployment [b] remains high (22 percent), especially in rural areas. Moreover, despite fast economic growth, the country has experienced very slow structural transformation. The agricultural share of employment decreased from 77.9 percent in 1999 to 73.8 percent in 2013, but remains very high.

**Improving labor productivity and quality of jobs.** While the average labor productivity has increased by 67 percent between 2005 and 2013, mainly driven by productivity improvements in agriculture and wholesale and retail trade, overall labor productivity remains low. Notably, despite the large increase, the output per worker in manufacturing remained low in 2013, higher only than the output per worker in the agricultural sector. Overall, only 12 percent of workers in Ethiopia work in a wage relationship and their earnings remain quite low (monthly median wage earnings amounted to 979 ETB in 2013). The remaining 88 percent are either self-employed or unpaid family workers. As a result, informality remains very high, even in urban areas, where among the wage employees, that is, excluding persons engaged in subsistence farming and those who work in private households, 25.8 were working in the informal sector in 2013.[c]

**Ensuring access to vulnerable groups.** There are both regional differences in labor market outcomes and pronounced disparities among different population groups. In 2013, the employment rate was as high as 86 percent in rural areas compared to 63 percent in urban areas. Unemployment rates were seven times higher in urban than in rural areas. Younger workers (15 to 29 years old) have lower labor force participation rates, lower employment rates, and higher unemployment rates than older workers. Younger workers also are more likely to earn wages that are below the national poverty line. Women have systematically worse outcomes than men. In urban areas, 27 percent of young women were unemployed in 2013 (rising to 32 percent in Addis Ababa). For young women in wage employment, one-third earn below the poverty line.

*Note:* a. Using the International Labour Organization's (ILOs) relaxed definition of unemployment and in line with the standards of the Ethiopian Central Statistical Agency (CSA), an individual is classified as unemployed if he/she did not work at least 1 hour in the reference week and he was available for work in the reference period. b. A working-age individual who is employed, but works fewer than 35 hours per week and would like to work more. c. For exact definition, see CSA (2014) Analytical Report on the 2013 National Labour Force Survey. Addis Ababa.

*Source:* World Bank (forthcoming). Ethiopia: Employment and Jobs Study. Washington, D.C.

12. **Ethiopia is using these advantages to attract investment and generate jobs.** According to the United Nations Conference on Trade and Development 2016 report, Ethiopia attracted the most FDI in Africa that year. The country is being perceived as an attractive investment destination and major investors have seized the opportunity to set up production facilities in the industrial parks. For instance, the Bole Lemi I industrial park is fully leased to 11 investors and is operational, focusing on footwear and garment exports; 13,000 jobs have been created. The recently operationalized Hawassa industrial park has been committed to 25 investors (foreign and domestic) and is expected to generate approximately 60,000 jobs and US$1 billion in exports when it becomes fully operational. The investor pipeline for the recently completed Mekelle and Kombolcha industrial parks has led to almost full subscription of the spaces in these establishments. There are also five private sector investors that have been licensed to develop and operate industrial parks. In 2017, the World Bank Group granted the GoE a global 'Star Reformer Award' for its effective FDI-related reforms and the resulting success.

13. **Despite these successes, Ethiopia continues to have a challenging business-enabling environment.** Greater private sector competitiveness is required to unlock the investment and resulting job growth needed to fulfill the goals of the Jobs Compact. Ethiopia ranks 108 out of 137 economies in the

Global Competitiveness Index 2017/18 and 161 out of 190 countries in the 2018 Doing Business rankings. Moreover, Ethiopia's landlocked position, poor trade logistics, input shortages, high input prices, and access to land and finance (including foreign exchange) present challenges for export-oriented growth. Several private sector development constraints need to be addressed for investment and job growth to take place.

## C. Relationship to the CAS/CPF and Rationale for Use of Instrument

14. **The proposed operation directly supports the focus areas of the Country Partnership Framework (CPF) FY18–21, which prioritizes structural and economic transformation, resilience and inclusiveness, and institutional capacity.** The objectives directly supported include (a) Objective 1.1 enhanced business and investment climate, (b) Objective 1.5 new approaches for sustainable infrastructure financing and debt management, (c) Objective 2.6 increased access to services and job opportunities for refugees and host communities, and (d) Objective 3.1 increased capacity and improved governance in service delivery. The relationship between the Economic Opportunities Program and the CPF focus areas and objectives are further described in annex 1a.

15. **The operation contributes to achieving the IDA18 regional sub-window on refugees objectives of (a) creating social and economic development opportunities for refugees and host communities and (b) facilitating solutions to protracted refugee situations, including through the sustainable socioeconomic inclusion of refugees in the host country.** Results area 1 will focus on providing recognized refugees economic opportunities in wage earning employment as well as self-employment and the right to engage in commercial activities. Combined with a package of services that will match refugees to available opportunities, the activities will contribute to ensuring the socioeconomic inclusion of refugees in Ethiopia. Given that the opportunities sought for refugees will need to be created within the context of a developing economy where there are limited opportunities in productive sectors, the remaining results areas focus on creating an environment to expand investment and jobs growth in the manufacturing sector. Addressing economywide constraints such as low labor productivity and quality of jobs, poor investment climate (including investment promotion), and limited compliance with environmental and social (E&S) safeguards in industrial parks will open more opportunities for investment in manufacturing that will benefit Ethiopians and refugees. The Program contributes to and supports the Government policy note, which articulates a strategic approach to move toward long-term solutions that benefit refugees and host communities.

16. **A hybrid Program for Results (PforR)/Investment Project Financing (IPF) operation is chosen to address the mix of policy actions, investment activity, and technical assistance to achieve the desired outcomes of the Economic Opportunities Program.** Such a broad level of support would not be feasible through a IPF, PforR or a Development Policy instrument alone. The hybrid operation has several advantages, including the following:

(a) **Focus on results.** Implementation of the Jobs Compact requires a strong focus on results, ensuring not only that legal and policy actions benefitting refugees take place but also that the right enabling environment conditions (such as E&S protections) are in place to generate economic opportunities in an environmentally and socially sustainable way. Program performance will demand incentives in addition to accountability for results, which will be made possible using the instrument.

(b) **Aligning incentives to build capacity within government programs.** Building institutional capacity and strengthening systems is a priority for achieving development outcomes in a sustainable manner. The financing provided through the IPF instrument will address some of the core issues affecting the performance of the Government's program through targeted technical assistance. The IPF instrument will also help manage risks and capacity constraints by piloting initiatives that can be scaled up over time, with the eventual goal of utilizing government systems under the PforR.

(c) **Enhancing the World Bank's ability to partner.** The PforR provides a platform for other development partners supporting the Jobs Compact by pooling resources and focusing more directly on achievement of results for the needed reforms.

(d) **Flexibility.** The instrument supports a program of critical investments (that can cover infrastructure and technical assistance) over time in addition to regulatory and institutional improvements. It also allows for a flexible and scalable disbursement schedule provided results are achieved and verified.

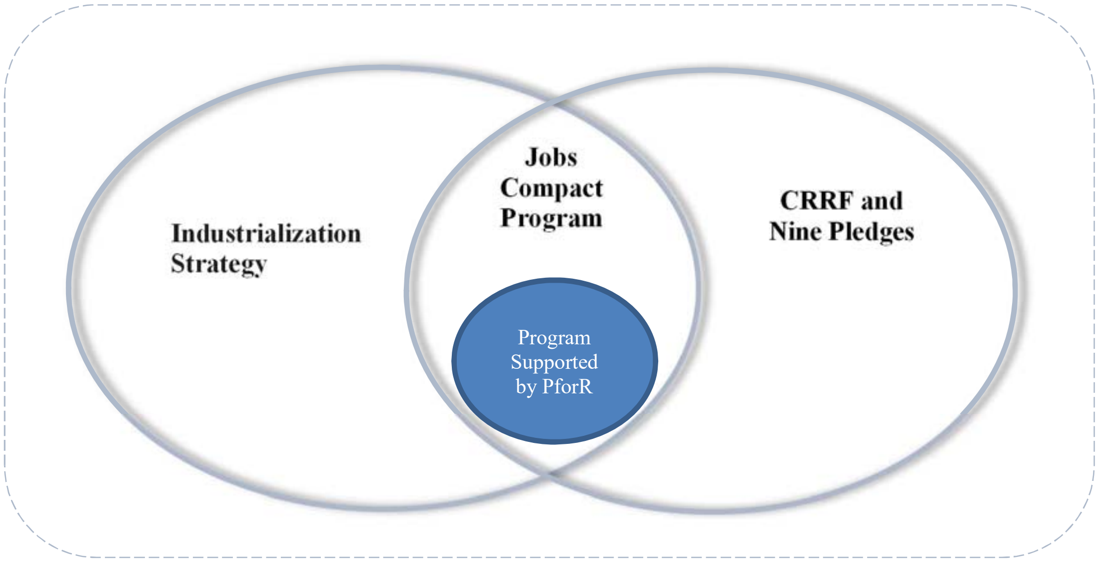
(e) **Adaptability.** This Program is dealing with a new topic where there is no previous experience in Ethiopia and very limited international experience. As the GoE moves to implement the results, it is likely to identify the need to adapt planned measures and develop additional measures; moreover, some planned measures may not be needed.

17. **The experience of the Economic Opportunities for Jordanians and Syrian Refugees Project (P159522), from which the Program derives critical lessons learned (discussed further in annex 10), has been instrumental in demonstrating the appropriateness of a results-based instrument to manage the complexity of the refugee and jobs agenda.** In the Jordan case, the work permit results area has proven very challenging and has required the Government, through a highly consultative dialogue, to implement numerous incremental adjustments to the work permit regime to achieve the targeted results. The PforR instrument has provided the necessary adaptability in Jordan. To achieve the results in this project it is anticipated that a similar process will be implemented.

### D. Government Program

18. **The overarching objective of the Government's Jobs Compact Program is to create economic opportunities for Ethiopians and refugees.** The Jobs Compact is a new program attuned to the CRRF process and the Government's broader industrialization strategy. To provide focus, the Government's program is targeting a subset of these broader reforms and activities that are most closely tied to securing investment in the manufacturing sector and job creation. In parallel, and in line with the Government's vision of self-reliance for refugees, a set of reforms and interventions will allow refugees to benefit from opportunities without putting undue strain on host communities. Figure 1 illustrates the relationship between the industrialization strategy, refugee policy, Jobs Compact Program and Program supported by the PforR.

**Figure 1. Illustration of the Jobs Compact Program**




19. **The Government's Jobs Compact Program covers the following work streams:**

(a) **Refugee-related employment and protection.** This includes providing the legal basis for refugees to take up employment opportunities and tailoring the work application process and other procedures to ensure that they are appropriate and attainable for refugee populations. Additional considerations linked to housing, skills development, employer/employment matching capability, and structures of oversight to ensure that refugees' rights and wellbeing are included here.

(b) **Improving the broader investment climate.** The Government has prioritized significant investments in transport logistics and power to help crowd in private investment. Additional reforms have included the rollout of 'One Stop Shop' (OSS) services (labor units in industrial parks) and a 'Client Charter' on the turnaround and fees on key investor registration processes. This area also includes strengthening investment promotion capabilities. The targeting of large numbers of high quality, responsible, and sustainable investors is a critical pillar of Ethiopia's industrialization drive, as is the active encouragement of buyer-supplier relationships to boost Ethiopian exports in competitive sectors. Strengthening these efforts will require targeted sector strategies, promotion, outreach, follow-up, and investor aftercare. This workstream will also include an institutional development component to raise the EIC's performance to the level of the best in the region.

(c) **Improving labor productivity and quality of jobs.** This includes providing interventions to improve worker skills and reduce levels of absenteeism and turnover. Much of the Ethiopian labor force is new to both the formal sector and factory-based work and this transition will need carefully targeted policies that improve labor sourcing, grading, and the provision of soft and technical skills training. This also includes encouraging good working conditions and adequacy of related social infrastructure for workers in industrial parks, which are conducive to improving labor productivity.

(d) **Further enhancing Ethiopia's reputation on E&S issues (enhancing the sustainability of existing industrial parks).** Ethiopia's reputation for sustainable and inclusive development is both an important end in itself and a prominent part of the 'brand' for investment promotion.

The commitment to carbon neutral growth, zero liquid discharge facilities at the Hawassa industrial park, and other investments have played an important part in this effort. Future activities will include detailed E&S assessment of future industrial park projects, innovative approaches to rainfall capture and solar power generation, and adherence to global best practice on social compliance in both industrial park construction and in the dominant garment sector protection of the (predominately female) workforce.

(e) **Construction of industrial parks.** To prioritize scarce resources and capture the spillover benefits of clustering, the Government has prioritized the development of industrial parks in regions across the country. Building on the success of—and learning lessons from—the Hawassa industrial park, the Government is targeting the development of 20 million $m^2$ of factory floor space over 100,000 ha of land by 2025. In addition to public sector initiatives, the Government is also seeking to expand the number of private sector developers through the establishment of a centralized land bank and a targeted incentive package.

20. **The EIC is managing the Government's program as the implementation agency in collaboration with ARRA and other government agencies,** including IPDC, Ministry of Labor and Social Affairs (MoLSA), and MoFEC in addition to donor partners comprising the World Bank Group, U.K. Department for International Development (DFID), European Union, and European Investment Bank (EIB). The donor partners have indicated their intent to provide a financing package of more than US$550 million for the Government's Jobs Compact program (including the proposed operation). The following list summarizes the envelope of funding and expected activities of each Jobs Compact donor:

- DFID (£80 million) will provide direct financing to the government, as well as financing to the Increasing Economic Opportunities for Ethiopians and Refugees Multi-Donor Trust Fund (IEO-MDTF) which, once approved, would co-finance the operation. The IEO-MDTF is past the concept stage and is expected to be approved by August 2018. DFID is the only contributing donor to the IEO-MDTF, but other development partners have expressed interest and may join at a later stage.

- European Union (€50 million) will support the Jobs Compact with parallel grant financing, indicatively through a Sector Reform Contract (sector budget support). This will likely focus on (a) infrastructure development, (b) refugee integration, (c) productivity and decent work, (d) investment climate, (e) investment promotion, and (f) domestic revenue mobilization.

- EIB (US$200 million) is expected to finance a parallel investment project based on the ongoing prefeasibility study being carried out by the Government with the support of DFID.

## II. PROGRAM DESCRIPTION

### A. Program Development Objectives (PDO) and Key Results

21. **The Program Development Objective (PDO) of this operation is 'to provide economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way'.**

(a) **'Economic opportunities'** are defined as rights to work in wage earning employment or right to engage in self-employment and commercial activities in accordance with the Refugees Proclamation and other applicable legislation and/or regulations.

(b) **'Ethiopians and refugees'** implies that the Program beneficiaries are Ethiopians and refugees living in Ethiopia. Refugees are those persons who are recognized as refugees in Ethiopia according to criteria established in the Refugees Proclamation.

(c) **'In an environmentally and socially sustainable way'** refers to adequate management and mitigation of emerging E&S risks associated with the Government's industrialization strategy and refugee policy within the Program boundary.

22. **The key results envisioned are**

(i) Employability and improved labor market outcomes for refugees who can work formally;

(ii) Economic opportunities created for Ethiopians through investment attraction, links established between international buyers and local suppliers, improved Public Employment Services (PES);

(iii) Improved labor productivity, quality of jobs and E&S compliance in the manufacturing sector through the introduction of measures to track labor standards and working conditions.

## B. PforR Program Scope

23. **The Economic Opportunities Program will support a subset of the Government's Jobs Compact Program, as illustrated in table 1.** The activities supported by the PforR constitute the boundary of the Program and have been selected based on the World Bank Group's strengths and ongoing development operations. Annex 1a elaborates on the rationale for some of the excluded program expenditures.

**Table 1. Program Boundary**

| | **Government's Jobs Compact** | **Program Supported by PforR** |
|---|---|---|
| **Objective** | To provide economic opportunities for Ethiopians and refugees | To provide economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way |
| **Program Description** | (a) Refugee-related employment and protection<br>(b) Improving the broader investment climate (including investment promotion activities)<br>(c) Improving labor productivity and quality of jobs<br>(d) Further enhancing Ethiopia's reputation on environmental and social issues<br>(e) Construction of industrial parks | (a) Refugee-related employment and protection<br>(b) Improving the broader investment climate (including some investment promotion activities)<br>(c) Improving labor productivity and quality of jobs<br>(d) Enhancing the sustainability of existing industrial parks |
| **Geographic Scope** | All areas of Ethiopia where industrial parks are located | The Program will focus on publicly owned operational industrial parks and urban centers where economic opportunities are most likely to be created |
| **Implementation period (Calendar Year)** | 2018–2024 | 2018–2024 |
| **Cost (US$, millions)** | **550** | **307.7** |

24. **The direct Program beneficiaries are refugees living in Ethiopia and Ethiopians seeking economic opportunities in the private sector, who will all benefit from the underlying reforms and results of the operation.** The Government is also a key beneficiary of the technical assistance to be provided by the Program.

- **Refugees.** Nearly 30,000 refugees will benefit principally through their improved legal status, which will facilitate their self-sufficiency over time. Based on the skill profile of refugees (summarized in box 4), an estimated 10–16 percent of refugees are expected to find opportunities in industrial parks. Rights included under the Refugees Proclamation such as the right to live out of camps, access to legal documentation, ability to open bank accounts, and measures that support access to compliant housing and better work will also improve their living conditions.

- **Ethiopians.** Improved enabling environment conditions for investment and links made between international buyers and local suppliers will generate more jobs in the manufacturing sector for Ethiopians. Ethiopians seeking opportunities in industrial parks will benefit from the increased compliance measures introduced through the Program, such as improved health and safety standards, in addition to opportunities for skills training. Refugee-hosting communities will benefit from complementary capacity building to PESs which will assist them in their jobs search and job matching.

- **Private sector, including investors.** The private sector will benefit from the enhanced investment climate for business resulting from specific reforms, as well as improved structures of dialogue and expanded investment/aftercare measures.

- **Government.** The EIC, ARRA, and select regional Bureaus of Labor and Social Affairs (BoLSAs) will benefit from technical assistance that will be provided by the Program, focusing on capacity building and institutional strengthening to carry out the objectives of the Economic Opportunities Program.

25. **Table 2 shows the share of the PforR Program financed by IDA, including MDTF co-financing.** As part of the Board Consultation Note that was discussed on September 29, 2017, Ethiopia was approved as an eligible country to receive financing from the IDA18 regional sub-window on refugees.

**Table 2. PforR Program Financing (US$, millions)**

| Source | Amount | Percentage of Total |
|---|---|---|
| **Government** | 44.09 | 14.3 |
| **IDA national allocation** | 34.44 | 11.2 |
| **IDA18 regional sub-window on refugees** | 166.67 | 54.2 |
| **MDTF co-financing (pending approval)** | 62.5 | 20.3 |
| **Total Program financing** | 307.7 | 100 |

26. **Table 3 shows the financing for the entire operation**. The Program will be financed as a hybrid PforR/IPF operation. The IPF will finance a project preparation advance, which will provide support to the Project Coordination Unit (PCU) as well as technical assistance and institutional capacity building (discussed further in annex 1b).

**Table 3. Financing for the Operation (US$, millions)**

| Source | PforR | IPF | Total |
|---|---|---|---|
| **IDA national allocation** | 34.44 | 0.89 | 35.33 |
| **IDA18 regional sub-window on refugees** | 166.67 | 0.00 | 166.67 |
| **MDTF co-financing (pending approval)** | 62.50 | 25.00 | 87.50 |
| **Total for Operation** | 263.61 | 25.89 | 289.50 |

27. **The expenditure framework combines expenditures related to the Government's refugee management program and its industrialization strategy, as well as initiatives to promote investment and improve investment climate, including improving labor productivity.** The expenditure framework for the Program covers recurrent expenditures by primary government agencies involved in these initiatives which include ARRA, EIC, IPDC, and MoLSA. Over six years, expenditures are estimated to be US$307.7 million, supporting the Government to maintain the activities of key ministries and agencies involved in the Program, as illustrated in table 4. Further details relating to the budget structure and classification are described in annex 1a.

**Table 4. Program Expenditure Framework (US$, millions)**

| | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Forecast** | | | | | | |
| **Refugee Related Employment and Protection** | | | | | | | | |
| Salaries and benefits | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | **85.2** |
| Other administrative and operating costs | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | **49.9** |
| **Subtotal** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **135.1** |
| **Improving Investment Climate** | | | | | | | | |
| Management and administration | 0.8 | 0.9 | 1.0 | 1.2 | 1.3 | 1.5 | 1.7 | **8.5** |
| Promoting and attracting FDI | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | **3.4** |
| Investment projects support, facilitation, and regulation | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 | **6.2** |
| Investment research and studies | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 | **3.2** |
| **Subtotal** | **2.0** | **2.3** | **2.6** | **2.9** | **3.3** | **3.8** | **4.3** | **21.3** |
| **Improving Labor Productivity and Quality of Jobs** | | | | | | | | |
| Management and administration | 1.0 | 1.0 | 1.1 | 1.3 | 1.5 | 1.7 | 1.9 | **9.4** |
| Harmonious industrial relations | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | **2.1** |
| Employment service promotion | 0.6 | 0.8 | 0.9 | 1.1 | 1.2 | 1.4 | 1.5 | **7.5** |
| **Subtotal** | **1.8** | **2.1** | **2.3** | **2.6** | **3.0** | **3.4** | **3.8** | **19.1** |
| **Enhancing Sustainability of IP** | | | | | | | | |
| Salaries and benefits | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 2.0 | **13.2** |
| Other administrative and operating costs | 12.3 | 12.5 | 12.7 | 12.8 | 13.0 | 13.2 | 13.4 | **89.9** |
| Supplies | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | **4.0** |
| Fire prevention and protection | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.7 | 3.7 | **25.1** |
| **Subtotal** | **18.1** | **18.4** | **18.6** | **18.9** | **19.1** | **19.4** | **19.7** | **132.3** |
| **Grand Total** | **41.3** | **42.0** | **42.9** | **43.8** | **44.8** | **45.9** | **47.1** | **307.7** |

28. **The Program complements and reinforces the broader engagement of the World Bank Group and other development partners in a number of ways.** Primarily, the Program enhances World Bank Group and donor partner support to industrialization, including through supporting labor productivity, encouraging investment promotion and supporting infrastructure planning. It also links to operations

focusing on private sector development and expansion of basic services in Ethiopia. The implementation of the Program will rely on lessons learned from existing World Bank Group operations as well as ongoing analytical work. A table illustrating complementary programs in included in annex 10.

### C. Disbursement Linked Indicators and Verification Protocols

29. **The Program's disbursement-linked indicators (DLIs) were developed in collaboration with the Government and are presented in table 5.** These DLIs were chosen based on their relevance to the Economic Opportunities Program objective of providing economic opportunities in an environmentally and socially sustainable way and to support the Program's overall results chain. The DLIs target some of the constraints linked to the creation of economic opportunities while also supporting the government's vision of growth in the manufacturing sector. The DLIs fulfill the requirements of being tangible, transparent, verifiable, and under the Government's control. The selected DLIs also consider the areas where the Program is best placed to add value without duplicating efforts in other World Bank Group-financed operations and other donor programs.

**Table 5. Description of the DLIs**

| DLI | Description |
|---|---|
| **Results area 1: Refugee-related Employment and Protection** | |
| **1** | Number of refugees with access to economic opportunities |
| **Results area 2: Improving the Broader Investment Climate** | |
| **2** | Number of targeted investment facilitations by EIC increased |
| **Results area 3: Improving Labor Productivity and Quality of Jobs** | |
| **3** | Disclosure of Better Work synthesis compliance reports and MoLSA synthesis inspection reports |
| **Results area 4: Enhancing the Sustainability of Existing Industrial Parks** | |
| **4** | Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park |
| **Results area 5: Fiduciary Systems Strengthening** | |
| **5** | Procurement Directives and Manuals issued and used by IPDC and ARRA based on legal framework issued by Federal Government and IPDC unqualified/clean entity financial audit report issued, based on International Financial Reporting Standard (IFRS)-compliant financial statements submitted on time |
| **Results area 6: Safeguards Systems Strengthening** | |
| **6** | An established environmental and social risk management system that addresses respective risks |

30. **Sequencing of DLIs and Program interventions.** The timing and sequencing of Program interventions have been carefully considered in the overall design of the targets for the DLIs. Most importantly, there will be a slow ramp-up of targets on economic opportunities for refugees to allow sufficient time to develop government systems to manage social integration of refugees living out of camp as well as pilot the Employment Promotion and Protection (EPP) initiative, discussed further in box 4. Moreover, as refugees and Ethiopians are gradually provided economic opportunities, the interventions that focus on creating a pipeline of jobs and improving the quality of jobs will be implemented (for example, investor mobilization and E&S compliance measures in factories). While DLI 1 has a specific focus on refugees, all other results areas will benefit both Ethiopians and refugees by addressing economywide constraints that expand the number and quality of economic opportunities available.

#### Results Area 1: Refugee-related Employment and Protection

31. **Number of refugees with access to economic opportunities.** This results area includes providing refugees with economic opportunities and ensuring integration of refugees in the formal labor market and taking measures to provide related services to refugees, including ensuring that refugees are able to relocate to areas where economic opportunities will be provided. Economic opportunities are defined as formal wage employment, own account self-employment, and/or entrepreneurship through a formally registered

business. Access is defined as having the required legal status and accompanying documentation (for example, work permits, business licenses, and/or residence permits) to engage in gainful employment. Economic opportunities may include opportunities within industrial parks, but will not be limited to parks. Procedures for the operationalization of the pledges relevant to enabling refugees to work formally are in the process of being developed and are likely to evolve as the Refugees Proclamation and associated regulations are adopted. Box 4 describes the support that will be provided by the EPP pilot to address some of the challenges linked to labor market integration and relocation. DLI 6, focusing on government systems to manage E&S risks, expands on the measures that will need to be in place for the social integration of refugees living out of camp.

**Table 6. DLI 1 (US$116.12 million[4], including prior result)**

| DLI | Prior Result | Baseline | YR 1 | YR 2 | YR 3 | YR 4 | YR 5 | YR 6 |
|---|---|---|---|---|---|---|---|---|
| Number of refugees with access to economic opportunities | Refugees Proclamation promulgated | 0 | 100 | 2,600 | 7,600 | 17,600 | 24,000 | 30,000 |

**Box 4. Addressing Labor Market Integration Challenges for Refugees in Ethiopia**

Refugee demographics, including high dependency ratios, and low educational attainment present challenges to refugees' formal labor market integration. Only 40 percent of refugees in Ethiopia are of working age and, hence, can potentially participate in the labor market. However, given the large number of children among refugees and a high share of households headed by women, many refugees may find it difficult to participate in the labor market. Indeed, currently only 33.3 percent of refugees are in the labor force, that is, either employed (81.2 percent) or unemployed (18.8 percent). Furthermore, educational attainment of refugees is very low. There are large disparities between men and women, with the latter being significantly less educated, and by ethnic group. Furthermore, language barriers, lack of sufficient work experience, along with family responsibilities, are the most important concerns limiting mobility of refugees. Refugees cite support in skills training and provision of education, health, family relocation, and childcare services as needed to help them take advantage of economic opportunities. Further detail and data on refugees' labor market integration is included in the Program's technical assessment (annex 4).

**The EPP pilot.** The IPF instrument (discussed in annex 1b) will include a comprehensive package of services and financial assistance that will help connect refugees to economic opportunities. These opportunities could be in waged employment, potentially but not exclusively within the existing industrial parks, or in new entrepreneurial business start-ups, or as self-employed/own account workers. A pilot program, targeting between 5,000 and 10,000 refugees, will build a nuanced understanding of the profile of these refugees and their match with labor market need, as well as constraints in the wider system. This will inform the nature and scale-up of further assistance. The pilot program will be delivered by between four and eight service providers across two to four refugee camps, allowing for a comparison of approaches and facilitating performance management. The providers will be contracted with outcome-based payments tied to sustained employment (not service inputs); focusing the program on results and encouraging innovation. The journey of each refugee through the program will be personalized according to their profile and goal, but it is likely to entail: initial engagement and screening; goal setting and action planning; supported job search and/or matching; psycho-social input, including functional language, soft skills and family engagement; economic input, such as short, demand-led vocational training or business planning; assistance with legal requirements, notably work permits; practical support, possibly in relocation, settling-in allowances or the purchase of tools, and; particularly intensive early in-work support. For job matching in industrial parks, the EPP pilot implementation will learn from the results of the upcoming Hawassa Industrial Park Community Impact Evaluation measuring welfare impacts for employees, their origin households, and communities. Given the complexity of the EPP, it will be managed using the IPF instrument where it can be potentially scaled-up using government systems under the PforR.

[4] The financing calculated for the DLIs includes co-financing to be contributed from the IEO-MDTF

**Results Area 2: Improving the Investment Climate**

32. **Number of targeted investment facilitations by EIC increased.** This results area focuses on promoting the country's investment opportunities and improving conditions for foreign and domestic investors, including carrying out targeted investment facilitations to ensure a pipeline of investors in industrial parks. Based on GTP II targets, the EIC alongside other relevant government agencies has been tasked with increasing the flow of FDI and enhancing the participation of domestic investors in the manufacturing sector. Key to ensuring the creation of more and better economic opportunities for Ethiopians and refugees will be ensuring a pipeline of investors in the industrial parks and priority sectors and the active encouragement of buyer-supplier relationships in competitive sectors. Targeted investment facilitation will include proactive actions, including total number of site visits arranged for investors, processed visas, matching made between buyers and suppliers (defined through a formalized contractual relationship), memorandums of understanding (MoUs)/lease agreements and other documents prepared on behalf of investors, investor licenses issued, and investor aftercare resulting in successful resolution. The prior result is the amendment of the forex retention policy and change in the debt-equity ratio that will, respectively (a) allow for the opening of the foreign exchange retention account for eligible exporters of goods and services and (b) incentivize eligible exports of goods and services by increasing the debt to equity ratio for foreign investors to access a loan. Achievement of the targeted DLI will be led by the EIC and the verification process for the achievement of this DLI will rely on data capturing systems currently being set up in the EIC that focus on Customer Relationship Management (CRM).

**Table 7. DLI 2 (US$52.5 million, including prior result)**

| DLI | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| Number of targeted investment facilitations by EIC increased | National Bank of Ethiopia (NBE) Directives amended to permit establishment of foreign exchange accounts and to permit higher debt-equity ratio for foreign investors | 250 | 550 | 850 | 1150 | 1450 | 1750 | — |

**Results Area 3: Improving Labor Productivity and Quality of Jobs**

33. **Disclosure of Better Work compliance synthesis reports and MoLSA synthesis inspection report.** The activities on improving labor productivity and quality of jobs focus on improving and supervising the work environment (for example, conducting labor inspections and wage bargaining) and increasing compliance with international labor protection standards and local labor laws. Better Work is a comprehensive program bringing together all levels of the garment industry to improve working conditions and respect of labor rights for workers and boost the competitiveness of apparel businesses. Better Work focuses on the garment sector and targets a range of social compliance issues, for example, overtime, chemicals and hazardous substances, worker accommodation, worker protection and gender, among other areas. Better Work has been shown to increase worker productivity by improving working conditions, including through a reduction of workplace injuries, decrease of verbal abuse and providing supervisory skills training. Through transparent disclosure, Better Work gives buyers a clear picture of the labor situation in factories where they place orders, thereby pushing factories to improve their working conditions. A detailed description of Better Work is included in box 5. The targeted DLI will focus on public disclosure by the GoE of the Better Work report through the program's website. The ILO is working in Ethiopia to build the capacity of government, as well as of workers' and employers' organizations, with the objective of supporting the development of a socially sustainable textile and garment industry through

improved labor relations, productivity, wages and working conditions. Building on its ongoing intervention, the ILO is scaling up its activities to advance decent work and inclusive industrialization which will include Better Work, strengthening labor inspection, social dialogue, industrial relations, occupational safety and health, dispute prevention and settlement. The ILO is also building MoLSA's capacity on labor inspections and will specifically encourage collaboration between MoLSA and Better Work to mainstream its best practice approach to other sectors. The prior result focuses on establishing labor units in the existing industrial parks, which would also help monitor compliance with local labor regulations and provide labor dispute resolution mechanisms on behalf of MoLSA.

**Table 8. DLI 3 (US$25 million, including prior result)**

| DLI | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| Disclosure of Better Work compliance synthesis reports and MoLSA synthesis inspection report | One labor unit established in each of Bole Lemi I, Hawassa, Mekelle and Kombolcha industrial parks | 0 | — | Annual disclosure of Better Work compliance synthesis reports | Annual disclosure of Better Work compliance synthesis reports | Annual disclosure of Better Work synthesis compliance reports and completion of MoLSA synthesis inspection report | Annual disclosure of Better Work synthesis compliance reports and completion of MoLSA synthesis inspection report | Annual disclosure of Better Work compliance synthesis reports |

**Box 5. Detailed Description of Better Work**

**What is Better Work?** "Better Work" is a joint ILO and International Finance Cooperation (IFC) Program launched in 2007, that brings together all levels of the garment industry to improve working conditions and respect of labor rights for workers, and boost the competitiveness of apparel businesses. It is currently operational in Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Nicaragua, Vietnam, and Egypt.

**Scope, Sector Coverage, and Rollout in Ethiopia.** Better Work covers labor standards and working conditions. The labor standards, drawn from the eight core ILO conventions, include (a) abolition of child labor, (b) non-discrimination, (c) addressing forced labor, and (d) promotion of freedom of association and collective bargaining. Working condition standards are drawn from each country's national labor law or benchmarks based on international best practices. Better Work currently focuses on the garment sector, however, based on discussions with the GoE there are plans to expand the sectors of focus to other sectors such as electronics. The ILO is also building MoLSA's capacity on labor inspections and will specifically encourage collaboration between MoLSA and Better Work to mainstream its best practice approach to other sectors. Following a recruitment and induction process, Better Work will start operations in Ethiopia in June 2018 and is planned to be implemented for at least five years. The Better Work intervention in Ethiopia will be part of a wider multi-pronged approach developed by the ILO to advance decent work and inclusive industrialization.

**Evidence of impact.** Tufts University (Massachusetts, USA) has conducted an independent impact assessment of Better Work in Haiti, Indonesia, Jordan, Nicaragua, and Vietnam. The assessment demonstrates the program's impact on a wide range of working conditions, such as preventing abusive practices, curbing excessive overtime and closing the gender pay gap. Moreover, research demonstrates that improvements in working conditions have led to higher labor productivity and firm profitability. Specifically, evidence indicates that improved working conditions resulted in faster production times, 22 percent increase in productivity of production lines run by trained supervisors, improved employee turnover and reduced injury rates. Furthermore, one of the key components of Better Work is transparency. Better Work reports are purchased by brands to get a clear picture of the labor situation in the factories in which they place orders or plan on placing orders. A 2012 study by Ang et. al found that the threat of public disclosure of noncompliance in Cambodia induced compliance even in those factories lacking a reputation sensitive buyer.

*Sources:* Better Work website; ILO/IFC. 2016. *How Better Work is Improving Garment Workers' Lives and Boosting Factory Competitiveness: A Summary of an Independent Assessment of the Better Work Programme*.

Geneva.; Brown, Drusilla, Rajeev Dehejia, Raymond Robertson, George Domat, and Selven Veeragoo. 2015. "Are Sweatshops Profit-Maximizing? Answer: No. Evidence from Better Work Vietnam." Better Work Discussion Paper 17; Ang, Debra, Deborah Brown, Rajeev Dehejia and Raymond Robertson. "Public Disclosure, Reputation Sensitivity and Labor Law Compliance: Evidence from Better Factories Cambodia." Review of Development Economics Volume 16, Issue 4 (2012): 594-607.

**Results Area 4: Enhancing the Sustainability of Existing Industrial Parks**

34. **Ethiopian Investment Board decision made on feasibility study of private sector-led participation in industrial parks.** The activities focused on enhancing the sustainability of existing industrial parks will provide a systematic approach to environmental, social and financial sustainability in industrial parks, including mainstreaming the eco-industrial park approach, ensuring working conditions and treatment of workers in industrial parks conform to acceptable standards and reducing dependence on government subsides. The earlier-mentioned DLI on Better Work will support the Government's program on the E&S sustainability of the existing industrial parks. The selected DLI relates to the overall financial sustainability of the existing industrial parks. The main sources of revenue for the parks are rental income from the industrial park sheds plus other marginal income from accommodation and water supply. The payback period for industrial park development is estimated by IPDC to be around 15 years, whereas in a more financially robust model it would typically be 6 to 9 years. To enable the existing parks to be financially self-sustaining while also contributing to the Government's policy agenda of economic development and job creation, the proposed DLI focuses on decisions made by the Government's Investment Board on the completion of feasibility studies to explore options for private sector participation. This DLI is intended to capture both the preparation and the outcome of feasibility studies that must include legal, social, environment, financial, and market due diligence. The feasibility study should identify if there is an urban masterplan that includes the industrial park and identify any gaps and recommendations for the private sector to fill deficiencies linked to housing,[5] waste management and transport connectivity. This indicator will be achieved when (for each feasibility study prepared) there will be a decision with an explanation whether a private sector-led option is feasible. This DLI will be led by the EIC and the verification protocol will entail receipt and review of the feasibility studies completed.

**Table 9. DLI 4 (US$30 million)**

| DLI | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | n.a. | 0 | 0 | 1 | 2 | 3 | 4 | 5 |

**Results Area 5: Fiduciary Systems Strengthening**

35. **Procurement directives and manuals issued and used by IPDC and ARRA based on a legal framework issued by Federal Government.** As discussed under the findings for the Integrated Fiduciary System Assessment (IFSA), a major regulatory risk under the Program is that two of the implementing agencies, IPDC and ARRA, do not operate in accordance with the Federal Government's procurement proclamation and directive. IPDC carries out its procurement activities in accordance with a procurement directive approved by the Board of Directors of the Corporation. ARRA also carries out the procurement

[5] IPDC has established a housing unit that will take the lead on resolving housing challenges for industrial parks starting with Hawassa. Any recommendations related to housing should be coordinated in line with IPDCs recommendations on private sector involvement.

activities of the administration in accordance with ARRA Procurement Execution Directive issued in February 2017. The directives in both institutions do not appear to have a legal framework supporting the issuance of such Directives. The specific regulatory risks related to the PforR operation are (a) that IPDC and ARRA are carrying out procurement activities based on directives that are not subsidiary to Public Procurement Proclamation No. 649/2009, (b) the capacity of the Federal Public Procurement Agency (FPPA) and regional regulatory bodies to carry out comprehensive annual audits and monitoring of the procurements is weak, and (c) there are weak systems for handling of complaints.

36. **Unqualified/clean entity financial audit report of the IPDC is submitted on time which is prepared from IFRS-compliant financial statement**. From Financial Management point of view, it is critical that the IPDC is preparing financial statements on time and that the audit is conducted and delivered on time. IFRS compliance is also an issue requiring attention. Therefore, there will be DLIs focusing on the delivery of IPDC's financial audit reports on time that are based on IFRS-compliant financial statements.

**Table 10. DLI 5 (US$10 million)**

| | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| 5 (a). Procurement Directives and Manuals issued and used by IPDC and ARRA based on a legal framework issued by Federal Government | Na. | Directives without legal framework | Procurement Directives and Manuals issued, made public and used by IPDC and ARRA based on a legal framework issued by the Federal Government | Procurement Directives and Manuals issued, made public and used by IPDC and ARRA based on a legal framework issued by the Federal Government | | | | |
| 5(b). IPDC unqualified/clean entity financial audit report issued, based on IFRS-compliant financial statements, and submitted on time | Na | Financial statements audited are not prepared following IFRS | | | Year ended July 7, 2020, IFRS-compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2021. | Year ended July 7, 2021, IFRS-compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2022. | Year ended July 7, 2022, IFRS-compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2023. | Year ended July 7, 2023, IFRS-compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2024. |

**Results Area 6: Safeguards Systems Strengthening**

37. **Establish an E&S risk management system that addresses respective risks.** This comprehensive DLI targets the reduction of direct and indirect E&S project risks to a manageable level. It encompasses, at the outset, the establishment of the necessary systems in the implementing institutions, including targets for staffing, trainings, and E&S management systems. Consequently, targets are set for the key areas of concern: (a) the mitigation of refugee vulnerability (by the establishment of facilitation and support branches by ARRA); (b) the management of refugee-host community relations (by the establishment of neighborhood relations committees [NRCs] with representatives, including refugees, host communities, local government, and ARRA, and the provision of funds for small-scale community interventions proportional to the influx of refugees); and (c) ensuring E&S standards by the establishment of institution-specific management systems, consequent audits, and if necessary implementation of related corrective actions during program implementation. The mechanisms established through social risk management systems will also be accompanied by the reforms included under the CRRF/nine pledges that focus on expanding rights and services for refugees living out of camp.

**Table 11. DLI 6 (US$30 million) [a]**

| DLI | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| 6. An established environmental and social risk management system that addresses respective risks | n.a. | 0 | ARRA, EIC, IPDC and MoLSA, each have sufficient and qualified staff to develop and implement the E&S System by July 7, 2019 | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities |
| | | | Functional refugee tracking system established | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities |
| | | | | Proof of community consultations led by ARRA in refugee hosting communities | Community intervention implemented (annual multiplier [A.M.] =US$150) | Community intervention implemented (A.M. = US$100) | Community intervention implemented (A.M. = US$75) | Community intervention implemented (A.M. = US$50) |
| | | | E&S System developed by ARRA, EIC, IPDC and MoLSA, by July 7, 2019 | Training of IPDC on management of E&S System in operation | E&S audit on project activities conducted (including involved industrial | Adaptation and adoption of pilot lessons-learned document | Audit of the E&S System and implementation of corrective actions | Refresher IPDC on management of E&S System in Operation activities |

| DLI | Prior Result | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 |
|---|---|---|---|---|---|---|---|---|
| | | | | | parks) with a specific corrective action plan | by ARRA and the EIC, including a respective action plan | addressing audit results | |

*Note:* a. Definitions:

- **Sufficient and qualified staff** shall mean the presence of staff in the implementing institutions minimum as follows: EIC: 1 OHS + 1 Gender officer; ARRA: 1 Environment/OHS + 2 Social Development + 2 Gender officers; MoLSA: 2 OHS + 2 Social Development + 2 Gender officers; IPDCs: 1 Environment/OHS + 1 Social Development officer.
- **Refugee-hosting communities** are defined as woredas with a registered number of refugees higher than (a) 300 refugees (100 refugees encompassing more than 20 percent of the population within a 10-km radius) at the beginning of the project year.
- **Functional facilitation and support branch** encompasses at least 1 social ARRA staff, office materials, and opening hours of at least 30 hours per week. The office shall be easily accessible and open for refugees but also for citizens with refugee-related concerns.
- **NRC establishment:** NRC (a) founding documents and current membership defined and (b) trained in the guidelines. NRCs shall include gender-balanced representatives of host community, refugees, and woreda as well as the local ARRA officer.
- **Community interventions** will be implemented upon NRC request and woreda approval by ARRA (procurement and supervision). Application of ARRA E&S management systems with no significant E&S impact.
- **Community interventions calculation** based on number of registered refugees per woreda multiplied by AM in refugee hosting communities; interventions only for communities with an existing NRC. The minimum envelope gets calculated based on the number of refugees who are part of the Program.
- **E&S management systems** shall follow the guidelines developed under the Urban Institutional Infrastructure Development Program (UIIDP) adjusted to institutional needs and activities.

## D. Capacity Building and Institutional Strengthening for PforR

38. **The technical assessment highlights the need for a strong coordinating and implementing capacity in EIC and ARRA to achieve the reforms and results expected under the Economic Opportunities Program.** Capacity-building and institutional strengthening measures will be financed by the operation's IPF (discussed in detail in annex 1b), which will be primarily funded by the IEO-MDTF.[6] Capacity-building measures will include support to the implementing agencies, namely EIC and ARRA, to conduct Program implementation and monitoring and evaluation (M&E), verify results achieved under the PforR, enhance operations management capacity and conduct contract/performance management of an outcome-based program (the EPP pilot). Moreover, to ensure Ethiopians benefit from better employment and job matching, technical assistance will be provided to select regional BoLSAs to improve their capacity to serve Ethiopian jobseekers. The IEO-MDTF will also finance an approximate US$6 million program of analytical and advisory work which is intended to boost knowledge and data generation by building evidence to inform the government's programs and policies. This will include just in time technical assistance support which may evolve as areas of need are identified. It will also include studies on topics such as developing pro-poor market links focused on supply chains with high potential for refugee employment, analytics on how to create a sufficient number of jobs for a rapidly growing labor force, an impact evaluation study and other areas as discussed in further detail in annex 1b.

[6] The IEO-MDTF financing is pending and the set-up of the MDTF is undergoing approval

## III. PROGRAM IMPLEMENTATION

### A. Institutional and Implementation Arrangements

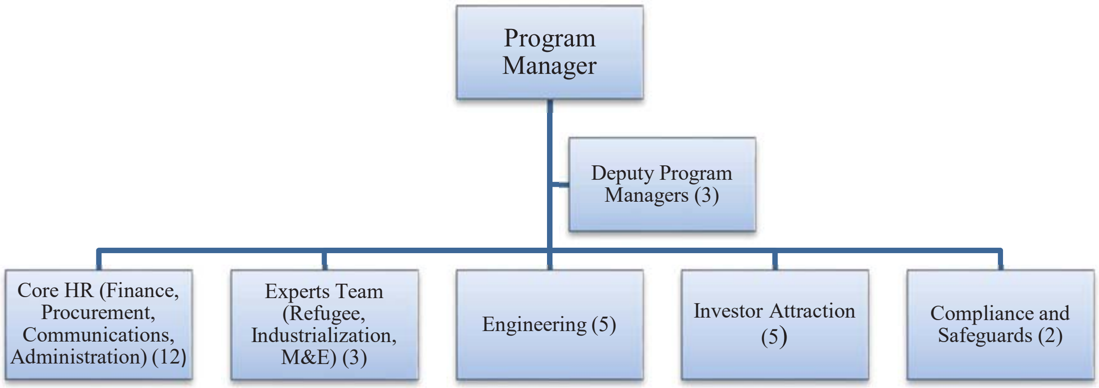
39. **The main counterpart agency for the PforR is the EIC, which is responsible for overall implementation and coordination of the Economic Opportunities Program.** The institutional arrangements for the proposed PforR include the EIC as the lead agency that will house the PCU, which will have the overall responsibility for implementation, financial management, and any procurement and reporting for the PforR. The EIC will also be responsible for coordinating with other responsible and implementing agencies, including ARRA, IPDC, and MoLSA for the implementation of the DLIs as indicated in Table 12. The PCU will be funded through the IPF instrument and staffed with a program coordinator as well as technical and administrative staff. The structure and staffing of the PCU is shown in figure 2. Specialized technical experts, including on refugees and industrialization, will be hired as part of the overall PCU team. Box 6 discusses the roles and mandates of the implementation entities included under the Program.

**Table 12. Key Implementation Entities**

| # | Component/ Result Area/DLI | Responsible Institutions | Implementing or Partnering Institutions |
|---|---|---|---|
| **1** | Refugee-related Employment and Protection<br>• DLI 1: Number of refugees with access to economic opportunities | ARRA | MoLSA |
| **2** | Improving the Broader Investment Climate<br>• DLI 2: Number of targeted investment facilitations by EIC increased | EIC | n.a. |
| **3** | Improving Labor Productivity and Quality of Jobs<br>• DLI 3: Disclosure of Better Work synthesis compliance reports and MoLSA synthesis inspection reports | EIC | MoLSA/IPDC |
| **4** | Enhancing the Sustainability of Existing Industrial Parks<br>• DLI 4: Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | EIC | IPDC |
| **5** | Fiduciary Systems Strengthening<br>• DLI 5: Procurement Directives and Manuals issued and used by IPDC and ARRA based on legal framework issued by Federal Government and clean audit reports of IPDC | EIC | ARRA, MoLSA, IPDC |
| **6** | Safeguards Systems Strengthening<br>• DLI 6: An established environmental and social risk management system that addresses respective risks | ARRA/EIC | n.a. |

40. **For the IPF instrument, EIC will be the lead agency that is responsible for implementation**. EIC will have the overall responsibility for financial management and any procurement and reporting. EIC will coordinate with ARRA and other implementing agencies who will be beneficiaries of the technical assistance provided through the IPF instrument.

**Figure 2. Structure/Staffing of PCU**




| **Box 6. Roles and Mandates of the Key Implementation and Partnering Entities for the Program** |
|---|
| **EIC.** Promote and facilitate investments in Ethiopia and its services including promoting the country's investment opportunities; issuing investment permits, business licenses, and construction permits; and issuing commercial registration certificates and renewals and issuing work permits. In addition, the EIC has the mandate to advise the Government on policies to improve the investment climate. The EIC is overseen by the Ethiopian Investment Board—a governing body chaired by the Prime Minister and composed of government officials designated by the Prime Minister wherein the EIC serves as its secretariat. |
| **ARRA.** Manage all refugee camps in Ethiopia and ensure protection and assistance in partnership with UNHCR and other humanitarian actors. |
| **IPDC.** Develop and administer industrial parks, construct industrial buildings, lease developed land, lease and transfer land, lease buildings, prepare detailed national industrial parks master plan, and serve as the industrial park land bank in accordance with the agreements concluded with regional governments. IPDC, is also mandated by the Government to collaborate with the concerned bodies to ensure that the necessary infrastructure is accessible to industrial parks developers. |

41. **Currently, the Jobs Compact governance structure includes a Technical Committee that guides the progress of the Program.** The current Jobs Compact Technical Committee is chaired by MoFEC and includes the EIC, IPDC, ARRA, UNHCR, International Labour Organization (ILO), and the Jobs Compact development partners (World Bank, DFID, European Union, EIB). The Technical Committee currently reports to a high-level Steering Committee chaired by MoFEC that provides strategic guidance on the Jobs Compact and includes the EIC, ARRA, IPDC, and heads of contributing development partner agencies. The Jobs Compact is a new and evolving program, which brings together different institutions. The governance structure and institutional arrangements will be critical to the success of the Program as a broad level of coordination and high-level political commitment will be required to achieve the results envisioned. The pledges related to economic opportunities will be implemented by ARRA in consultation and collaboration with the CRRF.

### B. Results Monitoring and Evaluation

42. **Results M&E will be carried out by the PCU in collaboration with the key institutions identified to support the Program results.** The detailed Results Framework is included in annex 2.

43. **With regard to implementation capacity, the EIC has an Information Technology and Data Management Department that is responsible for gathering data and reporting results mainly on investments registered at the EIC.** The agency has very limited data on investor aftercare. The data

recording and tracking system is manual, resulting in delays in updating the current database and inaccuracy. In the absence of a systemic data management system, the EIC is yet to establish an effective data and statistics reporting mechanism as a management tool. Through the support of World Bank Group projects, the EIC is currently in the process of setting up CRM and data management systems to automate its function and set up a robust investor tracking and aftercare system. Once the system is set up, the EIC needs to ensure that data is captured and maintained on a regular basis and that there is adequate institutional capacity to use the system effectively.

44. **ARRA faces challenges with data collection, collation, and reporting.** The agency significantly lacks resources to collect and manage refugee data. At present, ARRA uses a manual refugee registration system which is met with frequent delays in updating the database and inaccuracy of data. The ongoing refugee survey reconfirmed inaccuracy and multiple issues associated with ARRA's refugee database. Previously, ARRA and UNHCR had parallel systems to record refugee data. Recently both agencies have signed a data sharing protocol agreement and are in discussions to have a unified data collection mechanism. Along with an effective data management system, ARRA's capacity to manage and use the system needs to be enhanced. The establishment of a feedback loop by collecting high frequency data will help the implementation of the Economic Opportunities Program. To accomplish this objective, ARRA will need technical support to be able to track Program interventions and results as it relates to the refugee agenda.

### C. Disbursement Arrangements

45. **Disbursements for the PforR will follow the World Bank's Policy and Directive on PforR.** Disbursements will be made based on verified results, as measured by DLIs. For each achieved disbursement-linked result, a specific verification protocol is established, as described in annex 3.1, and will be further detailed in the Program Operations Manual (POM). The government will enlist the services of an independent verification agent to be hired by the PCU; currently the Ethiopian Development Research Institute and/or the Ethiopian Economic Association are being considered as potential verification agents. Verification reports are expected to be submitted within two months following achievement of results. Once the verification report has been completed, the EIC will submit the documentation accompanied by the verification report to the World Bank. The World Bank will review and notify the Government to confirm (fully or partially) the achievement of results and the amount to be paid from each co-financier accordingly. Based on the notification, the Government (through the EIC) can submit the related withdrawal applications through Client Connection and preferably through electronic submission. The disbursement of funds will be made to an account nominated by the Government, dedicated to the program, established at the NBE managed by the EIC.

46. **Within six months after the end of the Program, the Government will carry out an expenditure reconciliation**, to ensure that the total Program expenditure framework exceeds the total amount paid by the World Bank. Before the expenditure reconciliation process, the Program midterm review will allow the task team to identify if any corrective actions or adjustments on expenditures are required. Any excess amount will be reimbursed by the Government. Likewise, any balance of the advance not documented by achieved DLIs will be refunded to the World Bank.

## IV. ASSESSMENT SUMMARY

### A. Technical

47. **Strategic relevance.** The Economic Opportunities Program will support the Government's commitment toward the CRRF goals of supporting self-reliance of refugees, allowing refugees to become more independent and expanding their rights and freedoms to contribute more fully to Ethiopia's economy. At the same time, the Program supports the Government's industrialization strategy by targeting results and

reforms that link to the GTP II's strategic focus on equitable economic growth for Ethiopians through job creation, poverty reduction, and improvements in productivity and competitiveness in the manufacturing industries.

48. **Technical soundness (including results chain analysis and reasoning for selected DLIs).** The Program is designed to create economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way by addressing the constraints that limit access by workers, as well as the growth and quality of economic opportunities in Ethiopia. The priority constraints being addressed to provide economic opportunities include both supply- and demand-side issues such as access to the labor market, protection of workers, poor investment climate, low labor productivity, E&S compliance measures, and the overall sustainability of Ethiopia's industrial parks. Addressing these constraints is expected to result in outcomes, including employability and improved labor market outcomes of 30,000 refugees who have formal employment status, improved investment mobilization leading to more investment, improved labor productivity and worker retention, and industrial parks that are financially sustainable and meet international norms on E&S compliance. Additional DLIs to enforce institutional capacity have also been selected to enable delivery of the Government's program. The DLIs selected correspond directly to the desired activities and outputs selected under the Program, as illustrated through the Program results chain included in the detailed technical assessment.

49. **Governance structure and institutional arrangements.** The assessments highlight the need for a strong coordinating and implementation capacity in the EIC and ARRA. As a result, the IPF instrument will be provided within the construct of this PforR to finance capacity building. EIC and ARRA will be the key institutional 'champions' to address the set of proposed measures under the Jobs Compact and, as such, will primarily benefit from institutional capacity development activities to be financed under the IPF grant.

50. **Expenditure framework.** The Government's Jobs Compact Program envisages an expenditure of US$550 million over the next six years. For the World Bank-supported Program, the Government's planned expenditure over the next six years is US$307.7 million. The World Bank PforR funding (and associated co-financing) will be limited to US$263.6 million. The capacity of the Government to finance the execution of the Program relative to the Government's overall fiscal situation in a multiyear perspective has moderate risks. Overall, the rate of budget execution at the Federal Government level has remained high with minimal variance of expenditure out-turn compared to the original approved budget.

51. **M&E capacity.** The M&E systems within the EIC and ARRA have been identified as areas requiring support under the capacity-building (IPF) instrument. The Program Action Plan (PAP) item includes the setup of an M&E system to monitor and track Program interventions, outputs, and results, including putting in place competent staff.

52. **Economic rationale.** There is strong rationale for the Government's involvement in managing the Economic Opportunities Program due to the political and humanitarian concerns linked to ensuring refugees' rights and protection and managing potential negative externalities (for example, E&S costs) linked to the country's rapid industrialization. The proposed World Bank Program is adequately structured to address some of these concerns: with regard to the refugee policy, the Program will incentivize planned legal, policy, and procedural shifts focused on providing economic opportunities to refugees; and with regard to the industrialization strategy, the Program objective will focus on the E&S sustainability of the opportunities generated by the intervention. Given the innovative and complex nature of the interventions proposed under the Program, the World Bank's value added is to support the dissemination and adaption of effective practices to manage implementation. This includes providing knowledge based on international experience, leveraging strategic partnerships with other development and humanitarian actors and supporting the capacity of the implementation agency through technical assistance. The economic analysis has concluded that this PforR has a positive economic return (further discussed in annex 4).

## B. Fiduciary

**For the PforR Instrument (the Program)**

53. **An IFSA for the proposed Program was carried out on the EIC, MoLSA, ARRA, and IPDC, consistent with the World Bank Policy and Bank Directive and Guidance for PforR Financing.** The objective of the assessment is to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework. The fiduciary assessment entailed a review of the capacity of the participating entities with respect to their ability to (a) record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable information for the borrower and the World Bank; (b) follow procurement rules and procedures, capacity, and performance, focusing on procurement performance indicators and the extent to which the capacity and performance support the PDOs and risks associated with the Program and the implementing agencies; and (c) identify and address risk of fraud and corruption and effectively handle public grievances and complaints.

54. **As an outcome of the assessment, risks and internal inadequacies were identified with the Program implementing agencies, which are planned to be mitigated through measures to be included as DLIs and PAPs.** For the reasons mentioned in the paragraphs below, the fiduciary risk assessment[7] of the proposed Program is classified as High. The detailed issues, risks, and the mitigation measures envisaged are provided in the IFSA summary in annex 5.

55. **Overall, the fiduciary assessment concludes that the examined program financial management and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes**, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented.

*Financial Management*

56. **The 2014 Public Expenditure and Financial Accountability (PEFA) assessment for the Federal Government noted major improvements that have been made with respect to performance over the last three years.** Expenditure deviation was less than 5 percent per year during Ethiopian fiscal year (EFY) 2003–2005, which is less than half of what it was during EFY 1999 to 2001 (11.6 percent). Revenue forecasting also improved with revenue collection being 94 percent to 112 percent of the budget during the last three years. Bills are cleared on time. Arrears are, therefore, not a major issue. The internal control system is comprehensive, widely understood, and effective at the Federal Government level. Audit coverage at the Federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions (Bis) and audit reports are produced on time. The Federal Government still needs to improve its PEFA ratings in the following areas: (a) legislative scrutiny of audit reports, (b) oversight of fiscal risk from public sector entities, (c) public access to key fiscal information effectiveness in collection of tax payments, and (d) predictability of funds for commitment of funds and quality of in year budget execution reports. At the same time, based on the analysis of the PEFA assessment, the regions need to improve on the following: (a) the extent of unreported government operations, (b) effectiveness in collection of taxes, (c) comprehensiveness of information included in budget documents, (d) inadequacies in multiyear planning; (e) composition of expenditure outturn compared to the original budget, and (f) availability of information received by service delivery units. It is recognized that some of these issues are being addressed

[7] Fiduciary risk rate is the combination of the overall risk ratings of the financial management, procurement, and fraud and corruption.

through the Expenditure Management and Control Program—the GoE's flagship Public Financial Management (PFM) reform program.

57. **Overall, it is the conclusion of the assessment that the financial management risk is rated High.** The assessment found that the proposed implementing entities' financial management performance is reasonably robust but with some limitations. The budget is prepared and approved according to the budget calendar, there is an adequate budget monitoring system and an adequate accounting and internal control system, and financial reports are prepared on time and subject to an annual external audit. However, the assessment noted weak internal audit function, inadequate human resources at finance sections, inadequate capacity-building activities, inadequate accounting software in use at IPDC for the current volume of transaction, and delay in maintaining proper fixed asset register and in finalizing budget, accounting, and internal procedures manuals. The main challenge noted is in regard to program reporting. Since a portion of the allocated budget to implementing entities by the GoE will be considered as the Government's contribution to the program, identifying and reporting of the portion of the expenditure is expected to be a challenge. To address the challenges and risks noted, mitigation measures are proposed, which consist of a combination of DLIs and PAP items.

58. **The Program will follow government planning and budgeting, accounting, and internal control arrangements, which will be detailed in the POM.** The Program budget will be included in the national budget and will be proclaimed at the Federal level at the Federal EIC. To ensure that reporting of the Program expenditures is integrated in the national public financial system and codes, the Program's Charts of Account (codes) will be designed and will be documented in the POM. Budget control is exercised at all levels at transaction level, using the Integrated Budget and Expenditure (IBEX) or other systems, and at report level. For the Program, the semiannual interim financial reports (IFRs) will be prepared and submitted to the World Bank within 45 days of the end of the semester. Disbursements under the Program are subject to PforR procedures and disbursed against DLIs. The PforR funds will be disbursed from the World Bank to an account nominated by the borrower to be managed by EIC, upon achievement of the DLIs. Fund transfers from EIC to other implementing entities will be made on the basis of achieved results. Adequate financial management staff will be engaged or assigned to perform Program financial management duties. For the Program, it is envisaged that the Program activities will be audited by each entity's internal auditor. The Program will be subjected to annual financial audits. The Office of Federal Auditor General (OFAG) or an assigned auditor acceptable to the World Bank will conduct the annual financial audit for the Program. The audit will be conducted in accordance with agreed terms of reference. The resultant audit report and management letter will be submitted to the World Bank within six months after the end of the Government's fiscal year. The World Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the World Bank. Following the World Bank's formal receipt of these statements from the borrower, the World Bank makes them available to the public in accordance with the World Bank Policy on Access to Information.

*Procurement*

59. **The implementation agencies of the Economic Opportunities Program include the EIC, IPDC, ARRA, and MoLSA.** The EIC and MoLSA carry out procurement activities under their respective institutions based on the Ethiopian Federal Government Procurement and Property Administration Proclamation No. 649/2009, and the Federal Public Procurement Directive issued by the MoFEC, dated June 10, 2010. IPDC, which is essentially a state-owned enterprise, and ARRA do not operate on the basis of the Federal Government Procurement Directive, but they have their own procurement directives, which were issued by the Board of Directors in July 2015, in the case of IPDC, and by the Refugees and Returnees Affairs Administration in February 2017, for ARRA.

60. **The procurement activities in the EIC, MoLSA, and ARRA are low-value contracts, which are limited to the operational requirements of the respective institutions.** The procurement activities of these institutions are by and large limited to procurement of low-value goods and services. However, IPDC has been closely involved in the procurement of works, goods, and consultancy services. The institution has been involved in the procurement of a significant volume of works and consultancy contracts, which are associated with the infrastructure needs of the 14 industrial parks and have been under construction during the past three years, involving high-value contracts. The contracts at IPDC, particularly for industrial park infrastructure are above the Operations Procurement Review Committee (OPRC) thresholds; however, such contracts of infrastructure development at IPDC are not included in the Program.

61. **Through the IFSA carried out for the Economic Opportunities Program, the legal framework of the procurement entities, the procurement capacities, and the strengths and inadequacies in the procurement system of all implementing agencies of the Program were assessed.** Some of the major challenges identified include the following: (a) lack of experience in handling high-value contracts of the nature provided under the Program in the EIC, MoLSA, and ARRA; (b) lack of qualified procurement proficient staff in most of the agencies; (c) lack of experience in procurement planning and processing of the nature under this Program in most of the agencies except for IPDC, particularly in the preparation of procurement plans, bidding documents/requests for proposals, and bid evaluation reports; (d) absence of internal and external procurement oversight over the procurement activities of the agencies; (e) inadequacy of procurement record keeping and document/information tracking system; and (f) lack of contract administration capacity and quality verification mechanisms. Most importantly, IPDC and ARRA do not carry out their procurement activities based on the legal framework and directives issued by the Federal Government and operate based on procurement directives that are not subsidiary to Public Procurement Proclamation No. 649/2009. Hence, the legality and transparency and fairness of the procurement processes carried out in these agencies is of a serious concern.

62. **To address these identified procurement risks and further increase the reliability of the procurement system, a number of measures have been identified for implementation as part of the Program through DLIs and the PAPs.** The assessment recommends using DLIs aimed at transparency and oversight and proposes implementing entities to measure their performance through procurement key performance indicators.

63. **The main recommendations to improve the procurement system focus on hiring and training appropriate staff, establishing adequate record keeping, improving procurement plan preparation and strengthening contract administration**. The recommendations are the following: (a) strengthen the procurement units in all implementing agencies through the establishment of an appropriate structure and hiring of procurement proficient staff; (b) plan and implement dedicated procurement skills upgrading programs to existing and new procurement staff in the procurement of goods, works, and services; (c) establish an adequate record keeping and procurement information tracking system; (d) improve procurement plan preparation and use for procurement monitoring and management decision-making purposes; (e) strengthen oversight of the procurement system of all implementing agencies by building the internal oversight capacity for procurement and by carrying out annual procurement audits of the agencies; (f) strengthen the contract administration of the agencies through appropriate staffing and implementation of capacity-building schemes; and (g) require ARRA and IPDC to follow the Federal Government's procurement law and directives for the implementation of procurement activities under the Program in their respective institutions.

*Fraud and Corruption and Complaint Handling Mechanism*

64. **The World Bank will depend on the Government's system of fraud and corruption prevention and control while its working relationship on World Bank-financed projects and**

**programs is governed by the MoU signed on October 3, 2011, with the Federal Ethics and Anticorruption Commission (FEACC).** The overarching framework for addressing fraud and anticorruption risks as well as the mechanism for handling maladministration, procurement, and corruption complaints are in place. This includes the following:

(a) At the federal level,

(i) The FEACC, with its extended presence in federal institutions in the form of an ethics and anticorruption (EAC) unit/officer, is responsible for prevention and education, as well as coordinating the different components of the ethical infrastructures and liaising with international bodies;

(ii) The Federal Police (Proclamation no. 720/2011, amended Proclamation No. 944/2016) is responsible for investigation; and

(iii) The Office of the Federal Attorney General, formed in 2016 (Proclamation No.943/2016), is assigned to prosecute fraud and corruption allegation at the federal level.

(b) At the regional level,

(i) The Regional Ethics and Anticorruption Commissions (REACCs) are mandated for both prevention and prosecution of fraud and corruption allegation in their respective regions.

65. **The assessment suggests that during public resource management, when suspecting incidents of fraud and corruption, any public office can provide tip-offs to the above indicated bodies**. Additionally, the fraud and corruption prevention and control arrangement in the country is enhanced through the OFAG and institution-based internal auditors, both of which are responsible to conduct financial and performance audits.

66. **At the federal level, FEACC, according to the Council of Ministers, Regulation No. 144/2008 (No. 144/2000 EC), has an extended presence in over 120 federal level institutions in the form of an EAC unit/officer.** This structure is in place in three out of the four proposed implementing agencies of the Program. These include the EIC, MoLSA, and IPDC. ARRA has no formal structure/staff responsible for ensuring that EAC interventions are implemented as needed. The EAC units/officers have, among others, the responsibility to receive and pass tip-offs to the federal police commission and/or to its nearest representative stations and to FEACC, through their regular reporting responsibilities.

67. **The cooperation and sharing of information on fraud and corruption allegations, investigations and actions taken on the Bank-financed projects and programs are governed by the MoU signed between the World Bank's Integrity Vice Presidency (INT) and the FEACC on October 3, 2011.** The assessment reveals that the MoU was signed at the time when FEACC was responsible for both prevention and prosecution of fraud and corruption allegations and serving as the lead agency that coordinates the overall fraud and anti-corruption of the country through strong vertical and horizontal working relationships with all relevant organizations. The responsibilities of investigation and prosecution of FEACC has since been transferred to the Federal Police and the Office of the Federal Attorney General. FEACC still holds the coordination role of the different components of the ethical infrastructures and liaising with international bodies including the Bank. Therefore, it is critical for FEAACC to establish a strong relationship with the new players while nurturing existing collaboration with REACCs. Within the first year of implementation a formal domestic MoU will be signed between FEAAC and the Office of the Attorney General to formalize their cooperation and sharing of information on fraud and corruption

allegations, investigations and actions taken on the Bank-financed projects and programs for FEACC to meet the requirement of the external MoU signed with the World Bank's INT.

68. **With regard to complaints handling, the assessment has revealed that all the visited institutions have different systems for the management of complaints arising during staff management, service delivery, management of resources, and procurement administration.** Among the institutions visited, the EIC and MoLSA have formal structural setups that meet business process reengineering study recommendations (2012/13), whereas IPDC and ARRA employ ad hoc committees. These ad hoc committees in ARRA and IPDC, as well as supplementary ad hoc committees formed from time to time at the EIC, are used to address complaints directly related to the key strategic objectives of the respective institutions. In addition, the complaint handling system at Hawassa industrial park is managed by both the EIC/IPDC representatives, whose main function is to facilitate the labor units (including service provision in one place) complementary to the park's operations management, which is outsourced to China Civil Engineering Construction for three years. Similarly, a procurement complaint management arrangement exists in the Procurement and Property Administration (PPA) Directorate of the EIC and MoLSA, all of which follow the provisions made under the PPA Proclamation, while IPDC and ARRA are using their respective procurement directive.

69. **The assessment on the fraud and anticorruption and compliant handling systems of the Program has revealed that the PforR requirements, with regard to managing fraud and corruption allegations, can be handled by the legal framework and related structural arrangements that cover the entire country if the identified gaps are filled.** These include establishing a strong working relationship between FEACC and Federal Police Commission and Office of the Attorney General while nurturing the relationship with REACCs, and signing a domestic MoU between FEACC and the Office of the Federal Attorney General to meet the requirements of the external MoU signed between FEACC and the World Bank's INT on October 3, 2011; establishing and institutionalizing the EAC unit with the appropriate staffing at ARRA/IPDC and motivating them to work across departments; building the capacity of the EAC officers and/or public complaint handling officers to help expand their involvement in serious resource management issues; putting in place appropriate systems for recording, organizing, reporting, and information sharing; and increasing the staffing of internal auditing department.

***For the IPF Instrument (the Project)***

70. **A financial management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank Financed Investment Operations issued by the Financial Management Sector Board on March 1, 2010, retrofitted on February 4, 2015, along with its supporting guidelines.** The assessment was also conducted according to the requirements of the World Bank Policy and World Bank Directive on IPF. The assessment was conducted on the EIC and ARRA, which are expected to be the direct beneficiaries of the Program. The assessment report preparation and quality assurance is currently being undertaken. The objective of the assessment was to determine whether the implementing entities have acceptable financial management arrangements to ensure that (a) funds are used only for the intended purposes in an efficient and economical way, (b) accurate, reliable, and timely periodic financial reports are produced, and (c) the implementing entities assets are safeguarded. The financial management risk for the IPF is Substantial. The project will inherit the various strengths of the country's PFM system. At both entities, the financial management performance was found to be robust, but the main drawbacks noted are weak internal audit function, inadequate manpower at finance sections and inadequate capacity-building activities. In addition, both entities are new to implementing World Bank projects. Mitigating measures proposed in the PAP will help to reduce the risk of the project once implemented. The financial management arrangements include quarterly report preparation due within 45 days of the end of the quarter. The audit of financial statements is conducted annually and the audit reports, prepared in accordance with agreed terms of reference, will be submitted to the World Bank within 6 months

from the end of the fiscal year. Moreover, in accordance with the World Bank's policies, the World Bank requires that the client disclose the audited financial statements in a manner acceptable to the World Bank. Following the World Bank's formal receipt of the statements from the client, the Bank makes them available to the public in accordance with the World Bank Policy on Access to Information. With regard to disbursement, IDA funds will be deposited into a separate designated account to be opened at the NBE. The program will use a report based disbursement. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the designated accounts will be further transferred into a Birr account to be held separately for the project and managed by EIC. The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment. Details are provided in annex 1b, on the financial management assessment, financial management arrangements, risk and mitigation measures.

71. **Procurement under the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers -** 'Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services', dated July 2016 and 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', revised as of July 1, 2016; and the provisions stipulated in the Legal Agreement. As per the Bank's Directive for procurement in IPF, procurement capacity assessment will be carried at the implementing agency for the IPF window.

72. **In addition, as per the requirement of the Regulations, a Project Procurement Strategy Document (PPSD) has been prepared by the Borrower**, which shall form the basis for a Procurement Plan at least for the first 18 months of the project life. The details of the Procurement Assessment are discussed in annex 1b.

### C. Environmental and Social Effects

73. **The potential positive and adverse E&S impacts of the Program will be associated with the activities to be undertaken under each component to reach the targeted results.** The proposed Program benefits Ethiopians and refugees by creating economic opportunities that consequently shall contribute to improved livelihoods. However, the Program has also risks that need to be managed well for successful implementation and sustainability of the same. The proposed Program poses substantial E&S risks related to industrial development and refugee relocations and management. The main E&S risks and benefits of the proposed Program are associated with refugee-related employment and protection, working conditions, and sustainability of industrial parks. Social risk is considered substantial above all due to the large number of new workers (locals, internal migrants, and refugees) injected into the industrial parks and other local economic sectors outside the camps; in addition to the expected substantial E&S risks related to industrial parks (operation/employment and construction legacy issues). The Environmental and Social Systems Assessment (ESSA) (annex 6) summarizes the potential benefits and risks associated with the Program. Key measures to be taken for improved E&S risk management in the Program are intended to help the implementing agencies in overcoming gaps with regard to E&S risk management.

74. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time

after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

### D. Risk Assessment

75. **The overall risk for the Economic Opportunities Program PforR is assessed to be High.** The full systematic operations risk rating, risk description and mitigation measures are included in annex 7. The Government's Jobs Compact is an ambitious new program that is anchored to a broader set of refugee and economic policy reforms. There is limited experience both internationally and nationally of moving forward a reform agenda that encompasses both refugee integration and industrialization. Ethiopia was assessed to be eligible[8] for IDA18 regional sub-window on refugees funding; though the country has demonstrated a comprehensive strategy and set of actions designed to benefit refugees, monitoring the impact of these policies on refugee protection will be a substantial task, with associated risks. The country has limited capacity to monitor risks to refugees once out-of-camp arrangements have been granted and will need substantial support. The points below summarize the risks that are High or Substantial. Mitigation measures for these risks have been integrated into the Program design, including the selection of DLIs and PAP items. A separate institutional stakeholder assessment was also carried out to inform the Program's overall risk assessment, the conclusions of which are integrated and discussed in box 7.

(a) **Political and governance.** There is a high likelihood that political and governance factors could significantly affect the PDO. Following escalations of ethnic violence and public protest, Ethiopia's Prime Minister resigned in March 2018 and the GoE issued a state of emergency. Although the Government has taken actions to address some of the demands raised, and a new Prime Minister was sworn in, outbreaks of violence could continue. There are several underlying causes of instability, including severe competition over natural resources, especially land. The associated risk is that Ethiopians and refugees searching for economic opportunities outside their locality/camps could experience an increased likelihood of tensions over resources and jobs. The mitigation measures proposed include taking conflict sensitive approaches (for example conducting and updating stakeholder assessments/political economy analysis and undertaking conflict analysis in refugee hosting communities). Additional measures include building government capacity to deliver on reforms linked to the Program and anticipating/monitoring political risks as they arise.

(b) **Sector strategy and policies.** While many at high levels in the Government are committed to the refugee policy reforms proposed, key actions (such as the promulgation of the Refugees Proclamation by Parliament and approval of associated secondary policies/directives) that underpin the operation are still in process and could be delayed. There is a chance that political events in Ethiopia could result in a loss of momentum to implement the proposed reforms or in a policy shift, especially if internal security concerns give cause for a reversal of the backing of refugee integration. Even if momentum is maintained, the Government is at the beginning of a long process and policy reform is likely to happen through incremental changes. The support and sequencing of the implementation of the pledges may also pose risks, as the government coordinates its ambitious agenda with development partners. Momentum to move

[8] To be eligible, countries need to (a) host at least 25,000 refugees, or refugees must amount to at least 0.1 percent of its population, (b) have an adequate framework for the protection of refugees, and (c) have an action plan or strategy with concrete steps, including possible policy reforms for long-term solutions that benefit refugees and host communities. The criteria is elaborated in the IDA18 Report from the Executive Directors of the International Development Association to the Board of Governors dated January 31, 2017.

forward with pledges that have more political will, could result in some pledges being met while others are not. To mitigate this risk, the World Bank is currently engaged on the broader CRRF agenda through separate complementary technical assistance to support solutions for forced displacement in Ethiopia. This support is led by the Fragility, Conflict and Violence Global Practice. The World Bank is also engaged on the broader industrialization agenda (including supporting sector and policy discussions) though the existing portfolio of operations and analytical work as discussed further in annex 10.

(c) **Institutional capacity for implementation and sustainability.** The Jobs Compact is a new ambitious program that brings together several government institutions that don't regularly coordinate and that have varying levels of capacity. Several institutions lack familiarity with World Bank systems and processes and only ARRA has experience working with refugee populations. Multiple donor agencies are involved in the same program, which may require a high degree of coordination and ability to meet different M&E requirements. To help mitigate this risk, the IPF instrument will support institutional capacity for implementation and sustainability by providing expertise and technical assistance. Additional World Bank-executed technical assistance and supervision will be provided as needs arise through the IEO-MDTF once it is set-up. To support government and donor coordination, the Jobs Compact Technical Working Group has been set-up under the leadership of a high-level Steering Committee to guide the progress of the Jobs Compact.

(d) **Fiduciary.** The Program includes several different government actors. This requires functional systems at all levels to account, record, and report on the PforR. Though Ethiopia has been making steady progress on overall public financial management, gaps remain on (i) legislative scrutiny of audit reports; (ii) oversight of fiscal risk from public sector entities (iii) public access to key fiscal information effectiveness in collection of tax payments and (iv) the predictability of funds for commitment and quality in year budget execution reports. Specific to the Program, the main financial management risk identified is the readiness in terms of codes and chart of accounts in the implementing entities' accounting set up which is lacking currently. In addition, financial management performance needs improvement in internal audit function, resourcing/staffing at finance sections, capacity building, accounting software in use at IPDC in view of the current volume of transactions, the maintenance of correct fixed asset registers, and finalization of budget, accounting and internal procedures manuals. For Procurement, the non-implementation of the federal government's legal procurement procedures for goods, works and services in both ARRA and IPDC presents a high risk, including the absence of a procurement decision-making body in both organizations. Lack of experience and of qualified staff as well as inadequate documentation compounds the risks. Though Ethiopia has a legal framework and structural arrangements in place to deal with fraud, anti-corruption and complaint handling, there is a risk that inadequate working relationships between the Federal Ethics and Anti-Corruption Commission, its regional offices and the federal police and Attorney General's Office will mean that the requirements of the World Bank's INT are not met. Lack of capacity and appropriate systems for organizing, reporting and information sharing increase this risk. To help manage these risks, DLI 5 is provided to help support transparency aspects of the Program. A further set of supporting fiduciary-related PAP items is included in the operation that will support DLI 5 and help improve efficiency and performance monitoring. Finally, activities that can be supported through the capacity building budget or other ongoing initiatives have been identified.

(e) **E&S.** The transformation process envisaged by this Program will trigger further E&S developments. With refugee camps in Ethiopia being located several day-rides from industrial centers, a situation will evolve which normally is captured by "labor influx" and resettlement instruments; further complicated by refugees' background of war and displacement. The resulting complexity and risks need adaptive management and key interventions in close coordination between all stakeholders involved. Key risks identified relate to: resource competition, environmental management; ghettoization (hostilities and rigid boundaries between refugees and host communities); breakdown of social networks; escalating group-based conflicts between refugees and host communities as well as between different groups of refugees; limitations regarding coordination between institutions (within industrial parks, outside industrial parks, within camps, outside camps, and so on.). Working conditions in industrial parks are also a key concern, and while the Program interventions will help mitigate this risk, there currently is no systemized approach to ensure compliance with social standards. Furthermore, introducing these measures will take time. As the Program will work primarily with vulnerable groups (refugees, women), risks resulting from disrupted social networks due to migration may include gender-based violence (GBV), sexual exploitation and abuse. Extensive measures have been integrated in the design of the operation to mitigate E&S risks, including DLIs 4, 6 and a comprehensive set of PAP items covering gender and protection, grievance redress, communications and other areas as discussed further in the summary of the ESSA in annex 6.

(f) **Stakeholders.** Vertical coordination between the GoE at federal and regional levels, horizontally between government agencies, different stakeholder groups (Ethiopians and refugees), and the international community will be a challenge given the multi-sectoral nature of the Program. Opposition from stakeholders arising from overlapping mandates, lack of incentives to cooperate, or competing priorities could limit the achievement of the PDO. Continued coordination through formalized mechanisms will be required throughout Program implementation, as well as a learn-by-doing adaptive approach. Associated risks include the potential impact on refugees moving away from their communities, who may experience a delay in the availability of social services due to government inefficiencies and coordination in delivery. It is also imperative that refugees with work authorization are able to access and are issued identity documents on time by the GoE at local levels, responding to instructions issued at the federal level. Mitigation measures include ensuring that formalized governance arrangements are in place to allow for formal coordination, broad consultation during preparation and implementation and preparation of a communications plan that will include measures for managing coordination at different levels.

(g) **Other.** Refugee protection risks are associated with all the other substantial and high risks in the Program. While there are currently a small number of refugees living out of camp in Ethiopia, managing protection-related risks for the 30,000 refugee beneficiaries who will likely move from a camp-based environment to urban centers or other areas will present substantial risks. ARRA, with the support of UNHCR, mainly focuses on provision of protection and services within camps, whereas the Program will focus on refugees outside of camps. Furthermore, Ethiopia's political culture limits (international and domestic) press freedom, political opposition, and independent human rights monitoring, which may create difficulties in establishing objective reporting on the status of refugee protection outside of the camps. Though the intention of refugee integration in Ethiopia is completely in line with refugee protection in the long run, Ethiopia will require substantial support to achieve its ambitious goals, including through maintaining IDA18 funding. The Program will manage this risk by coordinating with the CRRF secretariat, relying on continual feedback and monitoring in collaboration with UNHCR on refugee protections and ensuring that social safeguards such as grievance redress mechanisms (GRMs), NRCs and small-scale community interventions are in place.

**Box 7. Summary of Institutional Stakeholder Assessment**

The assessment provides a countrywide 'snapshot' that informs an initial review of government institutions. It also looks at stakeholder groups likely to benefit or otherwise be affected by the Economic Opportunities Program. Some initial findings are the following:

- **Sensitivity to tensions and dynamics.** Ongoing tensions over resources and jobs will have consequences for the ability of Ethiopians and refugees to move outside of their localities to find work. Pressure on rural land and the development of urban economic hubs does imply that some internal migration will be necessary. However, a careful assessment will have to be made on the balance between likely economic opportunities and conflict sensitivity so as not to further inflame tensions. ARRA will be aware of conflict issues and is likely to inform the Program design on any selection criteria. As much as possible, in this sensitive area there should be transparency, clear communication, and beneficiary participation in this process.
- **Importance of Government coordination at all levels.** Government institutions in Ethiopia have varying strengths and inadequacies that may affect the implementation. A clear strength is that institutions of government are present from the federal level right through to local community level in every region. Inadequacies can include skills and capacities but also have a political economy dimension. Policy is set at the central level and is expected to trickle down through the system to be implemented at local levels. However, Ethiopia is extremely diverse, not only in terms of peoples, languages, and cultures but also in terms of needs. It is essential to ensure that appropriate public feedback runs back to the federal level from local levels to ensure that a 'one-size-fits-all' approach does not apply. Local authorities in urban areas, throughout the country, will need support to effectively back beneficiaries of the Program in seeking sustainable employment. This will include a greater emphasis on and understanding of local private sector as potential employers.
- **Considering access to economic opportunities for different stakeholder groups (refugees, Ethiopians, and host community).** There are clear differences between stakeholder groups in terms of their ability to access and retain economic opportunities. Levels of education, wage expectation, work experience, and ability to access support services like childcare vary from good to nonexistent. It is likely that competition will develop between stakeholders not only to gain employment but also to receive necessary services as well as social and legal support. There is a range of ways in which the Program can be sensitive to the needs of distinct stakeholder groups, but there is also a clear need for the Program and the broader CRRF to clearly define 'who does what' across social, legal, and economic support areas. This will be included for Ethiopian beneficiaries and refugees, to avoid setting up parallel systems intended for refugees, which may have the unintended consequence of disenfranchising Ethiopian beneficiaries of the Program.

## E. Program Action Plan

76. **The identified PAP items include key activities that will be carried out to improve implementation of the Program.** The PAP items are informed by the findings of the Program assessments and were selected to (a) manage risk; (b) facilitate PforR implementation; (c) operationalize the DLIs; (d) create systematic capacities for the Government program; (e) build commitment and incentives where needed; and (f) ensure best practices and effective Program management measures, including Program monitoring and control are applied. The assessments recognize the role the PAP will play in closing key gaps such as linking refugees to economic opportunities, creating the necessary regulatory and policy changes, institutional strengthening, capacity building, putting in place necessary staff, developing operational procedures, and establishing M&E systems. The full list of PAP items is detailed in annex 8.

## Annex 1a: Detailed Program Description

## Ethiopia Economic Opportunities Program (P163829)

### A. Context

1. The Economic Opportunities Program supports the Government's commitment toward the CRRF goals of promoting the self-reliance of refugees, allowing refugees to become more independent and expanding their rights and freedoms to contribute more fully to Ethiopia's economy. The Government is leveraging its industrialization strategy to create these economic opportunities. It targets results and reforms that link to the GTP II's strategic focus on equitable economic growth through job creation, poverty reduction, as well as improvements in productivity and competitiveness in the manufacturing industries. The Program also aligns with the CPF focus areas as shown in table 1.1.

**Table 1.1. Link Between Economic Opportunities Program and CPF Focus Areas**

| | |
|---|---|
| **Focus Area 1: Promote structural and economic transformation through increased productivity** | |
| Objective 1.1 Enhanced business and investment climate | The Economic Opportunities Program will support the Government's investment climate program, which focuses on reforms needed to improve investment retention and expansion. The Program will prioritize investment facilitation by incentivizing actions to build a pipeline of investors in existing industrial parks. |
| Objective 1.5 New approaches for sustainable infrastructure financing and debt management adopted | The results area focusing on the financial sustainability of existing industrial parks will explore models to enable existing industrial parks to be financially self-sustaining, including options for private sector participation. |
| **Focus Area 2: Building resilience and inclusiveness** | |
| Objective 2.6 Increased access to services and job opportunities for refugees and host communities | The Program will include legal and policy measures needed to facilitate access to employment for refugees as well as business formalization and some basic services. |
| **Focus Area 3: Supporting institutional accountability and confronting corruption** | |
| Objective 3.1 Increased capacity and improved governance in service delivery | The Program will include a technical assistance component designed to strengthen institutional capacity for the EIC and ARRA to deliver the objectives of the Economic Opportunities Program. Moreover, Program actions (and/or DLIs) to promote improved governance and service delivery are incorporated to support fiduciary systems and governance. |

2. The Economic Opportunities Program is situated within the Government's broader Jobs Compact Program that combines elements of the Government's industrialization and refugee policy. The industrialization policy includes attraction of foreign investors who bring export markets. In large part, this revolves around the utilization of several industrial parks located in the major urban centers of Ethiopia.

3. The industrialization and refugee policies, which go beyond the Jobs Compact, collectively account for expenditures in excess of US$2 billion. The Jobs Compact expenditures total US$550 million, including contributions from the World Bank, European Union, DFID, and EIB. The supported Program expenditures form a subset of the Jobs Compact expenditures, totaling US$307.7 million.

### B. PDO

4. The PDO is to provide economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way.

(a) **'Economic opportunities'** are defined as formal rights to work in wage earning employment or right to engage in self-employment and commercial activities in accordance with the Refugees Proclamation and other applicable legislation and/or regulations.

(b) **'Ethiopians and refugees'** implies that the Program beneficiaries are Ethiopians and refugees living in Ethiopia. Refugees are those persons who are recognized as refugees in Ethiopia according to criteria established in the Refugees Proclamation.

(c) **'In an environmentally and socially sustainable way'** refers to adequate management and mitigation of emerging E&S risks associated with the Government's industrialization strategy and refugee policy within the Program boundary.

5. The outcomes of the Program include (a) employability and improved labor market outcomes for refugees who can work formally, (b) economic opportunities created for Ethiopians through investment attraction, links established between international buyers and local suppliers, improved PES, and (c) improved labor productivity, quality of jobs and E&S compliance in the manufacturing sector through the introduction of measures to track labor standards and working conditions.

## C. PforR Program Scope

6. **The Economic Opportunities Program will support a subset of the Government's Jobs Compact Program.** The activities supported by the PforR constitute the boundary of the Program and have been selected based on the World Bank Group's strengths and ongoing development operations. Two activities are not included as part of the Program boundary: some activities under the investment promotion stream and the rollout of the industrial parks. Investment promotion activities carried out by the Ministry of Foreign Affairs embassies abroad are not included in the Program boundary because the PforR Program is not able to influence the efficiency of these expenditures. The build-out of the industrial parks has been excluded for several reasons, including (a) there is sufficient demand for jobs in the existing industrial parks to accommodate the targeted level of employment for refugees and Ethiopians, (b) economic opportunities for refugees will also be generated through alternative means not linked to the rollout of the industrial parks masterplan (including wage employment outside of industrial parks and self-employment), and (c) the focus of the operation will be to ensure investor demand and optimal operationalization of the existing industrial parks. In addition to the above excluded activities the Program will not support activities that are likely to have significant adverse impacts that are sensitive, diverse or unprecedented on the environment and/or affected people. The Program will also exclude activities that involve the procurement of works (estimated to cost US$50,000,000 equivalent or more per contract), goods (estimated to cost US$30,000,000 equivalent or more per contract), non-consulting services (estimated to cost US$20,000,000 equivalent or more per contract) and consulting services, estimated to cost US$15,000,000 equivalent or more per contract.

## D. Description of Scope and Typology of Activities

7. The Economic Opportunities Program supports the GoE in four main results areas: (a) refugee-related employment and protection, (b) improving the broader investment climate (also including some investment promotion activities) (c) improving labor productivity, and (d) improving the sustainability of the existing industrial parks.

*Jobs Compact Expenditures Relating to the Industrialization Policy*

8. Implementation of the overall industrialization policy involves a number of Government ministries and agencies, who contribute in whole or in part. These include:

- The Ministries of Education, Finance and National Economy (Revenue and Customs Authority), Foreign Affairs (trade offices), Industries, and Trade and MoLSA;
- Agencies such as the Central Bank, EIC, IPDC, Ministry of Industry, Standards Association, Textile Development Institute, and Leather Development Institute; and
- State-owned enterprises such as the Ethiopian Shipping Lines Corporation and Railways

9. While these other agencies all contribute in some way, it was agreed, in consultation with the Government, to include only the principal implementing agencies for the results areas under the PforR which are:

- EIC
- IPDC
- MoLSA

*EIC Budget Structure and Classification*

10. The EIC is an autonomous government institution accountable to the Ethiopian Investment Board and is responsible for leading the Government's industrialization strategy, in addition to its traditional mandate as the lead investment promotion agency, and is the lead agency for the project. One results area is aimed at improving these investment promotion efforts by encouraging proactive investment facilitation. This facilitation is defined broadly and includes all aspects of the EIC's operations, including management and administration, promoting and attracting FDI, investment project support, facilitation and regulation, and investment research and studies. The main services provided by the EIC include

(a) Promoting the country's investment opportunities and conditions to foreign and domestic investors;

(b) Issuing investment permits, business licenses, and construction permits;

(c) Notarizing memorandum and articles of association and amendments;

(d) Issuing commercial registration certificates as well as renewals, amendments, replacements, or cancellations;

(e) Effecting registration of trade or firm name and amendment and replacements or cancellations;

(f) Issuing work permits, including renewals, replacements, suspensions, or cancellations;

(g) Grading first grade construction contractors;

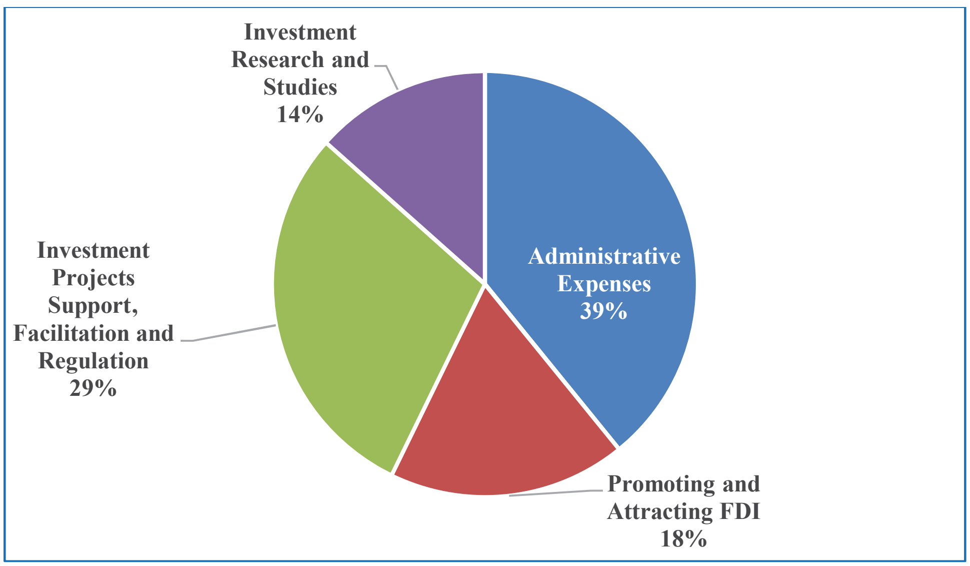
(h) Registering technology transfer agreements and export-oriented non-equity-based foreign enterprise collaborations with domestic investors;

(i) Negotiating and, upon Government approval, signing bilateral investment promotion and protection treaties with other countries; and

(j) Advising the Government on policy measures needed to create an attractive investment climate for investors.

11. As all these activities are related to investment promotion, the Program expenditure framework includes the EIC's entire recurrent expenditures. Over the past four years, the EIC's recurrent expenditure has increased by a little more than 30 percent on an annual basis. As can be seen from figure 1.1, besides administrative expenses investment project support, facilitation, and regulation takes up the bulk of the EIC's recurrent expenditures followed by promotion of FDI. Over the six-year implementation period of the PforR it is expected that these expenditures will grow at an annual rate of 20 percent to reach the kind of scale necessary to manage the Government's ambitious plans to attract FDI. Even with this growth, these numbers are well below international norms for Investment Promotion Agency expenditures.

**Figure 1.1. Breakdown of EIC's Recurrent Budget, 2014–2017**




*Source:* MoFEC.

*IPDC Budget Structure and Classification*

12. IPDC is a public enterprise established in 2014 with the mandate to develop and administer industrial parks in Ethiopia. IPDC's activities include constructing buildings, leasing developed land, leasing and transferring land, leasing buildings, and preparing detailed master plans. IPDC has several operational parks, which it administers closely with other institutions, including the EIC, to ensure the attraction of investment to the parks and the implementation of OSS services for investors. IPDC's organizational structure includes branch offices (responsible for aftercare, facilities management, rent collection, and security) and its main headquarters (responsible for signing lease agreements, oversight of branch office operations, industrial park infrastructure works, convening tenant meetings, and communicating with utility providers). The IPDC results area relates to improving the sustainability of existing operational industrial parks from a financial, environmental, and social standpoint. This involves the recurrent expenditures of IPDC, including salaries of staff within the corporate services and operations

and management divisions. These functions include activities such as human resources, finance, procurement and property administration, industrial park promotion, aftercare, and industrial park management, in addition to running branch offices. Costs associated with major works linked to the development of new industrial parks and staff costs within the Industrial Park Development unit (responsible for development of new parks) are not included in the expenditure framework as the Program boundary excludes expenditures linked to new parks.

13. The breakdown of IPDC's recurrent budget for FY2017/18 (table 1.2) shows that administrative and operating expenses take up a large share, while expenditures related to fire prevention and protection are also significant. During the Program implementation period, IPDC's recurrent expenditures is expected to increase annually at the projected rate of annual inflation that is, 8 percent.

**Table 1.2. Breakdown of IPDC's Recurrent Budget, [a] 2018**

| | Amount (ETB, million) | % Share |
|---|---|---|
| Salary and benefits | 47.0 | 13.1 |
| Supplies | 16.2 | 4.5 |
| Administrative and operating expenses | 201.7 | 56.4 |
| Fire prevention and protection | 93.0 | 26.0 |
| **Total** | **357.9** | **100.0** |

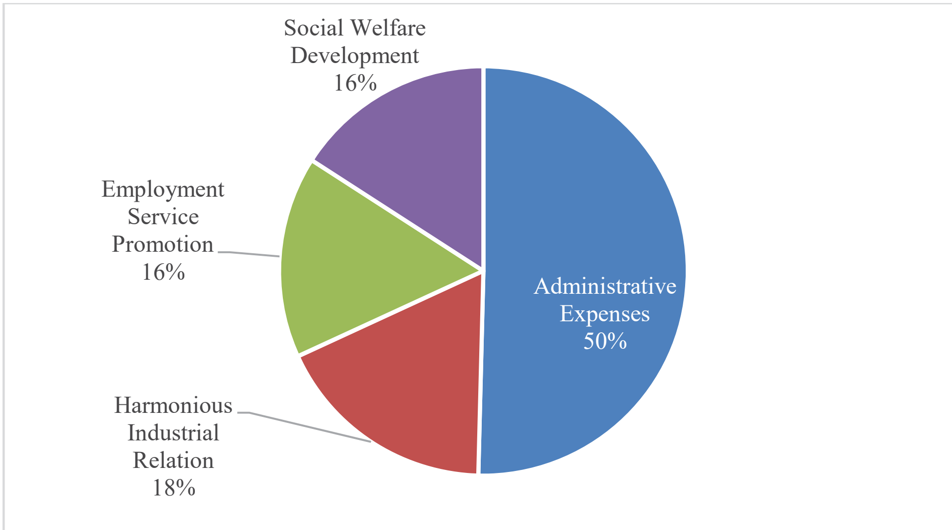
*Source:* IPDC.
*Note:* a. These include only the expenditure items included in the Program Expenditure Framework.

*MoLSA Budget Structure and Classification*

14. MoLSA is the ministry responsible for labor market and social protection policy setting in Ethiopia. Improving labor productivity and quality of jobs for both refugees and Ethiopians is results area 2. Results areas 1 and 3 are expected to contribute to economic opportunities in the formal sector for both refugees and Ethiopians, which is a domain of MoLSA's policies. The relevant MoLSA's activities include harmonious industrial relations, employment service promotion, and social welfare development as it relates to the setting of the social protection system. The Harmonious Industrial Relations includes relevant activities such as improving and supervising the working environment, for example, labor inspections, and strengthening social consultation system, for example, wage bargaining. Under DLI 3, the quality of MoLSA's labor inspections will be improved in collaboration with the Better Work Program. Both are critical to improving the quality of jobs, and, hence, labor productivity for both Ethiopians and refugees. Under Employment Service Promotion, MoLSA is responsible for monitoring the labor market (preparing employment statistics), supporting the unemployed in finding jobs (job search assistance), providing work permits for foreigners (formal employment), and providing licenses for private employment agencies (authorizing private agencies to provide job search assistance). These are relevant to results areas 1–3. Under social welfare development, the key activities are setting-up a social protection system, for example, general policy making for the social protection system, and providing social welfare services, which is social assistance for the poor and vulnerable. The social protection system includes both contributory benefits such as pensions, maternity benefits, work injury, and others available for formal sector employees in the private sector, as well as noncontributory benefits which are available to specific vulnerable groups. Hence, setting up the social protection system (60 percent of expenditures related to social welfare development) is applicable to the results areas 1–3, which promote economic opportunities in the formal sector for both Ethiopians and refugees and improving quality of jobs. On the other hand, providing social welfare services, which are not related to formal employment, and, hence, results areas, are excluded from the expenditure framework.

15. MoLSA's recurrent expenditures have, on average, increased by about 25 percent over the past four years. About half of its recurrent budget is consumed by administrative expenses while promoting harmonious industrial relations, employment service promotion, and social welfare development take up the remaining half, almost in equal proportion (see figure 1.2). Over the six years of the Program implementation, MoLSA's recurrent expenditures are expected to show an annual increase of 20 percent.

**Figure 1.2. Breakdown of MoLSA's Recurrent Budget, 2014–2017**




*Source:* MoFEC.

*Jobs Compact Expenditures Relating to CRRF Program*

16. Integral to the operationalization of the CRRF Program are the Government's nine pledges made during the Leaders' Summit on Refugees, which target a range of socioeconomic benefits for refugees, including expansion of the out-of-camp policy, improvements in rights and services, and access to work and livelihoods. The Jobs Compact is directly responsible for implementing the pledge to provide work authorization for 30,000 refugees. Other pledges are relevant in that they provide for some important social protections. This includes access to services, bank accounts, and driver's licenses. ARRA which is an autonomous government agency is responsible for implementing these pledges. Implementation of the Jobs Compact pledge as well as the other relevant pledges involves expenditure items linked to personnel, supplies, and operations costs to provide services to refugees (education, health, counseling, and so on). Thus, ARRA's expenditures related to the provision of these services to refugees are included in the Program Expenditure Framework.

*ARRA Budget Structure and Classification*

17. ARRA's expenditures to provide services to refugees is funded by UNHCR. The provision of services to refugees is undertaken at ARRA's headquarters in Addis and camps located in different parts of the country. The major services provided include legal assistance, water, primary health care, education, and reproductive health and HIV services. The expenditure items to provide these services mainly involve administrative and operating expenses, including salary and benefits to service provision personnel. ARRA's expenditures have shown a declining trend since 2014, although they seem to have rebounded in 2017 (see table 1.3). It is assumed that ARRA's administrative and operating budget will only increase by the expected rate of depreciation of the Ethiopian birr (that is, 6 percent) from its 2017 level for the six years of the Program. ARRA will receive additional budget for the implementation of DLI 6.

**Table 1.3. ARRA's Administrative and Operating Expenses for Provision of Services to Refugees**

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| Addis Ababa - headquarters | 30.5 | 32.8 | 43.1 | 57.5 |
| Gambella | 139.7 | 245.2 | 183.6 | 242.0 |
| Tigray | 87.6 | 98.6 | 74.4 | 123.5 |
| Afar | 39.7 | 46.6 | 33.2 | — |
| Benishangul-Gumuz | 60.8 | 66.8 | 75.4 | 96.2 |
| Dollo Ado | 146.4 | — | — | — |
| East south Ethiopia | 56.9 | — | — | — |
| **Total** | **561.4** | **489.9** | **409.7** | **519.3** |

*Source:* ARRA.

18. The total Program Expenditure Framework which includes all relevant expenditure items of the implementing government institutions (EIC, MoLSA, IPDC, and ARRA). The breakdown of the Program expenditures by component is as shown in table 1.4.

**Table 1.4. Program Expenditure Framework (US$, million)**

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Total |
|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Forecast** | | | | | | |
| **Refugee Related Employment and Protection** | | | | | | | | |
| Salaries and benefits | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | **85.2** |
| Other administrative and operating costs | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | **49.9** |
| **Subtotal** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **19.3** | **135.1** |
| **Improving Investment Climate** | | | | | | | | |
| Management and administration | 0.8 | 0.9 | 1.0 | 1.2 | 1.3 | 1.5 | 1.7 | **8.5** |
| Promoting and attracting FDI | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | **3.4** |
| Investment projects support, facilitation, and regulation | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 | **6.2** |
| Investment research and studies | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 | **3.2** |
| **Subtotal** | **2.0** | **2.3** | **2.6** | **2.9** | **3.3** | **3.8** | **4.3** | **21.3** |
| **Improving Labor Productivity and Quality of Jobs** | | | | | | | | |
| Management and administration | 1.0 | 1.0 | 1.1 | 1.3 | 1.5 | 1.7 | 1.9 | **9.4** |
| Harmonious industrial relation | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | **2.1** |
| Employment service promotion | 0.6 | 0.8 | 0.9 | 1.1 | 1.2 | 1.4 | 1.5 | **7.5** |
| **Subtotal** | **1.8** | **2.1** | **2.3** | **2.6** | **3.0** | **3.4** | **3.8** | **19.1** |
| **Enhancing Sustainability of IP** | | | | | | | | |
| Salaries and benefits | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 2.0 | **13.2** |
| Other administrative and operating costs | 12.3 | 12.5 | 12.7 | 12.8 | 13.0 | 13.2 | 13.4 | **89.9** |
| Supplies | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | **4.0** |
| Fire prevention and protection | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.7 | 3.7 | **25.1** |
| **Subtotal** | **18.1** | **18.4** | **18.6** | **18.9** | **19.1** | **19.4** | **19.7** | **132.3** |
| **Grand Total** | **41.3** | **42.0** | **42.9** | **43.8** | **44.8** | **45.9** | **47.1** | **307.7** |

**Annex 1b: Description of the IPF instrument**

**Ethiopia Economic Opportunities Program (P163829)**

1. The IPF instrument (US$25.89 million) will complement the PforR instrument by supporting the EIC and ARRA, the key institutions responsible for implementing the industrialization and refugee agendas, respectively, under the Economic Opportunities Program. In addition to financing the project preparation advance (US$0.89 million), The IPF instrument will complement the PforR by supporting the EIC to set up and establish the PCU, including implementing the M&E systems to track results delivered. This technical assistance (described in Box 1.1) will be structured as a recipient-executed grant and funded by a MTDF which is currently under preparation. The EIC will be the lead agency for the management of the funds and will manage the designated account, with ARRA as a beneficiary.

**Technical Assistance Areas for Implementation**

*(a) Program implementation support to the EIC (US$8 million)*

- Assistance to the implementing entity, the EIC, to carry out preparation, policy, and program activities, including staffing of the PCU, goods and operating costs as follows:

    - **Staffing.** To carry out program activities, the EIC has proposed staffing arrangements including core specialized consultant staff and technical experts to carry out Program activities. These arrangements include program management and administrative staff within the PCU that will focus on program operations (procurement, financial management and reporting, safeguards, information technology, and M&E) in addition to technical staff that will focus on the supervision of the EPP pilot for refugees, investor attraction and industrialization/labor market and productivity reforms.

    - **Goods.** This will include procurement of office equipment, office furniture, ICT materials and M&E systems to ensure accurate data capture and flows. As part of the M&E arrangements, the Program will ensure that a countrywide management information systems architecture is collecting all data required for effective program monitoring and that a special-purpose data analytics dashboard is established to enable regular program monitoring against the specific monitoring requirements of the results framework and the DLIs. This data will be subject to periodic randomized audits and third-party validation to ensure its accuracy.

    - **Non-consulting Services.** To support the EIC's program implementation/staffing arrangements, a further set of services (communications and public relations, travel, vehicle rental, audit and third-party validation to assess achievements against DLIs) is expected to be contracted out to service providers.

    - **Minor works.** refurbishment/conversion of an existing room (within the EIC's office) from use as storage space into use as an office

*(b) Operations Management capacity support to ARRA (US$3 million)*

- The government's investment in economic opportunities for Ethiopians and refugees, under the CRRF, is a new and evolving program and institutional arrangements and roles/responsibilities are not entirely clarified. The policies and directives related to the nine pledges are being drafted and will help with their operationalization; however, detailed procedures are not in place and it is not clear among the various entities involved who will have responsibility for delivery of each of the pledges. The World Bank has set up a separate grant[9] that will support ARRA's role in the implementation of the pledges through the CRRF Steering Committee. In addition to this support, and recognizing the need to set-up data collection systems to allow analysis of data relating to refugees to report on the results of the PforR, the resource needs for ARRA under the Program include the following:

- **Staffing.** Given the expansion of ARRA's role in the implementation of the pledges, there is a need for recruitment of competent technical and management staff in addition to continuous training of existing staff to manage the humanitarian-development interventions targeted through the pledges, specifically for the implementation on the pledge related to the Jobs Compact.

- **Goods.** ARRA currently lacks reliable data network infrastructure for continuous and improved quality of data registration of refugees and asylum seekers in the country. To ensure accuracy of reliable data collection concerning refugee and host communities and to capture baseline data required for the implementation of the pledges, computerized implementation mechanisms will be procured (for example, software applications, installing data network infrastructure, installing and improving communication facilities).

(c) *EPP for refugees and support to PESs for Ethiopians (US$14 million):*

- This comprehensive package of services and financial assistance will help connect refugees to economic opportunities. These opportunities could be in waged employment, potentially but not exclusively within industrial parks, or in new entrepreneurial business start-ups, or as self-employed/own account workers. The details are discussed further in box 1.1 below. Given that there are a number of program characteristics which are new in this environment, including the content and contracting model of the EPP, the IPF instrument will be utilized to pilot the initiative with possibility of scale-up under the PforR. The IPF instrument will allow for better management of the complexity and risks associated with the EPP package.

- To ensure Ethiopian jobseekers can also benefit from better employability and job intermediation support, complementary technical assistance will be provided to selected regional BOLSAs. This technical assistance will aim to: develop an understanding of the tools and techniques of high-performing intermediation services; introduce and build capacity in their use and; develop performance tracking and management systems. The technical assistance will consider engagement and servicing of jobseekers and employers. Best practice sharing between the BoLSA's technical assistance and the pilot refugee program will enhance the learning of both.

**Box 1.1.Detailed Description of the EPP Package for Refugees**

**Objectives:** The objective of the EPP is to facilitate access of refugees to economic opportunities. There are three pathways**,** leading to three possible economic outcomes for the refugees:

1. Waged employment, which might be, (a) in industrial parks or, (b) outside the industrial parks;

[9] The "operationalizing forced displacement in Ethiopia" grant (TF0A7316) supports continued progress towards and implementation of progressive policy environments for refugees in Ethiopia to enhance self-reliance. The grant also helps host communities in their poverty reduction effort.

2. Own account self-employment (for example, working on a self-employed formal arrangement);
3. Entrepreneurship and business start-ups.

**Pilot description:** The EPP will be designed and implemented as a pilot to test the new approaches and new methods of contracting out providers based on outcomes. Lessons learned will be developed and documented. It is anticipated that there will be between four and eight service providers, delivering in between two and four of the refugee camps, targeting between 5,000 and 10,000 refugees. The pilot will have the following core principles:

- The pilot will run for a total of two years;
- The target group is refugees of working age in refugee camps;
- Success is measured in terms of outcomes, that is, job starts and sustained employment;
- The outcomes must be formal and unsubsidized, and may be waged employment, own account self-employment or business start-up;
- The outcomes must meet a minimum level of protection, including compliance with local labor laws, occupational and health safety rules, and access to basic services taking into account specific refugee needs (housing, child care, education/health). These criteria will be defined in a checklist to be included as part of the EPP operations manual. Adequacy of facilitated accommodation will be assessed in line with the Better Works Assessment Tool.
- The work will be tracked, with in-work support provided, for a minimum of 13 weeks;
- Participation on the program for the refugees is voluntary;
- The service providers are responsible for refugee engagement and enrolment (up to a contractual volume) and can select those refugees that they think are most likely to succeed;
- Payments to providers will be outcome-based, the contract value split with 20 percent paid for enrolments, 40 percent for job starts and 40 percent for sustained work;
- Unit prices for these payment triggers will be set in advance, with providers selected not on price but on the quality of their proposals and the outcomes they can deliver;
- Providers must deliver within a ‘framework’, which sets out the overall shape of the program and a set of minimum service standards;
- Providers are also given control of the detailed content, with room to innovate and focus on outcomes;
- Rigorous Monitoring & Evaluation will be in place to inform learning.

**EPP package description:** Within this highly personalized program, there are **four core components**, the precise content of which will be determined by the contractors (see figure 1.3)

- ***Employer engagement:*** Identifying economic opportunities (vacancies) may occur before or after engaging with the refugee. In the case of the Industrial Parks it will entail early engagement to establish a pool of opportunities, including logistics. Refugees seeking waged employment outside the Parks will undertake intensive, supported job search and/or matching once on the program.
- ***Refugee engagement and enrollment:*** Briefing the refugees on the work opportunities, including the logistics. Rigorous screening of refugees to test the match with any pre-identified opportunities and the refugee’s motivation. Leading to enrolment and profiling, followed by goal setting and action planning.
- ***Pre-placement preparation:*** Depending on the Pathway and the goal, additional preparation may be required, which will have to take into account: the psychological condition of the refugee and impact of any change in living conditions; the functional language skills required; basic vocational needs; the cultural expectations of the employer; social networks; family and other caring responsibilities; legal issues, such as how to secure formal employment; the logistics of any move and securing sustainable, suitable accommodation with access to food and all basic services; the cost of moving into economic independence and the lag in receiving the first pay/income;[10] soft skills (positive work habits and getting used to the

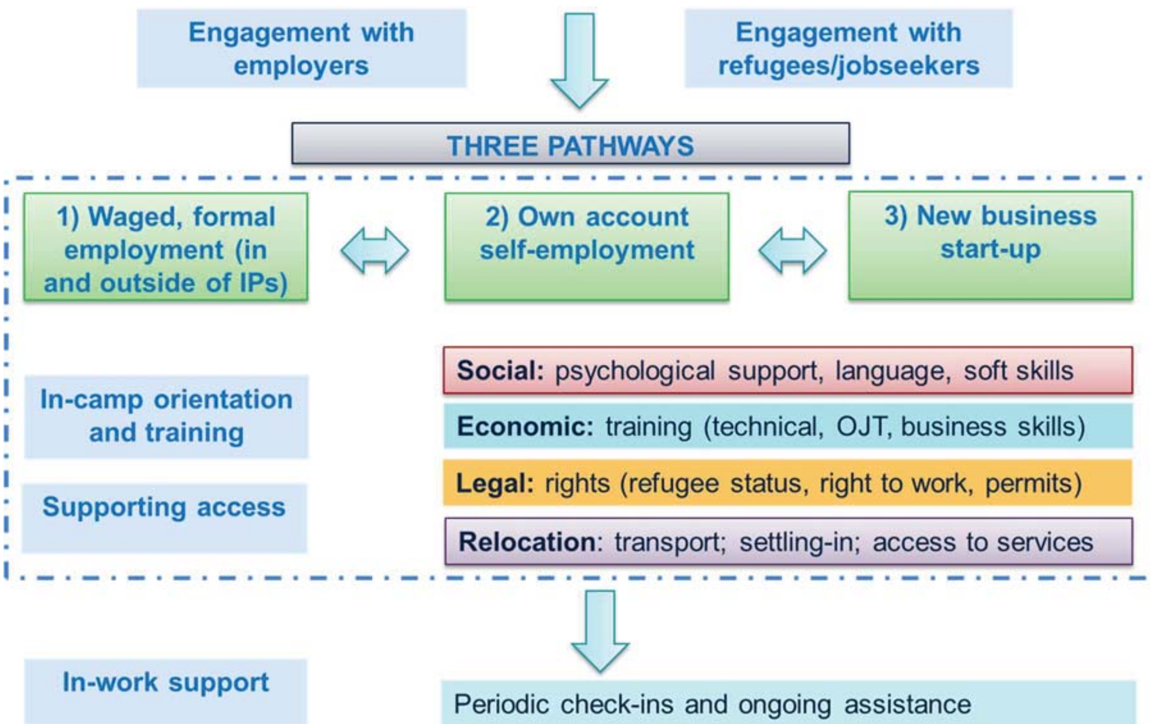
[10] The pilot will include both non-financial and financial support option which will be fine-tuned during preparation. The contractor will assist in finding suitable housing only (a) in small-scale housing structures or (b) in condominium structures where a written due diligence report has identified no unaddressed E&S issues based on the TOR annexed to the ISDS and ARRA E&S management system.

working environment; managing money, including potential remittances). Awareness sessions (including GRM, GBV, and so on.) at the onset of the pre-placement preparations will be integrated into the standard preparation curriculum. The own account self-employment or entrepreneurial opportunities may also require: support in preparation of a business plan; market research; access to finance; formal registration; purchase of tools or work clothes or other materials.

- ***In-work support:*** The sustainability of the opportunity will depend firstly on the quality of the match between refugee job seekers and employer needs or self-employment/entrepreneurship opportunity. It will then be strengthened through ongoing personal support, possibly with: housing or other basic needs; liaison with the employer; further soft skills or language training; additional on-the-job training.

The refugees may transfer between Pathways at any time. They will start on one, but the focus is on achievement of a sustainable economic outcome rather than completion of a fixed sequence of inputs. The duration of the program will vary between Pathways, and between individual refugees. However, 'speed to placement' is incentivized and providers will be looking to commence job search from day one.

**Figure 1.3. Core Components of the EPP Package Pilot**




**Capacity-building needs.** A capacity program will be delivered alongside the program, building a pilot management team in the government's contracting agency. This team will gain expertise in the design, procurement, implementation and contract/performance management of outcome-based programs. In addition, to ensure Ethiopians can also benefit from better employability and job matching support, complementary technical assistance will be provided to select regional BoLSAs to improve their capacity to serve Ethiopian jobseekers.

**Risks:** There are a number of program characteristics which are new in this environment, including the content and contracting model. The five key risks identified in this early stage of development are as follows:

(a) Gaining open access to vacancies in the Industrial Parks, including the buy-in of regional and local government;

(b) The level of infrastructure, including housing and basic services, around the Parks;

(c) Identifying the appropriate government agency to undertake the procurement and subsequent contract management, and the future role of MoLSA as a key stakeholder;

(d) Identifying early and building the capacity of service providers;

(e) Refugee commitment, including the fear of loss of their status and security.

**Box 1.2. MDTF to Support the Economic Opportunities Program**

The IEO-MDTF, to be established, would provide complementary funding intended to boost the success of the Economic Opportunities operation. Fully implementing this program—that is multi-sectoral, involving a range of institutions—and ensuring the sustainability of investments requires capacity building and institutional strengthening for public institutions in Ethiopia. There is also a need to ensure that the necessary evidence is collected and analyzed as the Program evolves, especially to make sure that risks are identified and mitigated and that programming remains flexible. Moreover, the MDTF provides a finance platform for development organizations supporting the Program by pooling resources and providing flexibility. It will improve coordination between funding parties, as well as provide a platform to fill funding gaps.

The overall size of the MDTF (with expected initial contributions from DFID) is estimated to be £70 million, estimated to be equivalent to US$90–US$95 million. Additional fundraising may be required to support advisory work or technical assistance/institutional capacity-building activities. The task team will actively fundraise.

The MDTF comprises three pillars as below:

**Component 1: Technical and Institutional Capacity Building Assistance to the GoE and EPP (Recipient-executed, funded up to US$25 million)**

- This will include the abovementioned program implementation support to the EIC, operations capacity support to ARRA and EPP for refugees and support to PESs for Ethiopians.

**Component 2: Advisory Services and Analytics, including support for Program Management and M&E (World Bank-executed, funded up to US$6 million)**

- An initial estimated allocation of US$6 million of World Bank-executed support has been identified focusing on analytical work, advisory services, and just-in-time technical support linked to the Economic Opportunities Program. Some emerging areas of analytical work have been identified as follows: (a) analytics on how to create a sufficient number of jobs for a rapidly growing labor force, improving labor productivity, earnings, and quality of jobs, and ensuring access to jobs for more vulnerable population groups, including youth, women, those in the bottom 40 percent, and refugees; (b) pilot interventions from the World Bank's new behavioral economics approach to jobs focusing on activating young urban Ethiopians in the labor market through psychological support; and (c) pro-poor market links focused on supply chains with high potential for refugee employment/livelihoods (leather, meat, dairy).

**Component 3: Results-based Financing in Support of the PforR Results Areas (Recipient-executed, funded up to US$62.5 million)**

- This component would provide results-based co-financing linked to the DLIs identified as part of the PforR Program.

### Financial Management for IPF instrument

2. A Financial Management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank Financed Investment Operations issued by the Financial Management Sector Board on March 1, 2010, retrofitted on February 4, 2015 along with its supporting guidelines. The assessment is also conducted per the requirements of the World Bank Policy and World Bank Directive on IPF. The assessment was conducted on the EIC and ARRA that are expected to be beneficiaries of the project. The assessment report preparation and quality assurance is currently being undertaken. The objective of the assessment was to determine whether the implementing entities have acceptable financial management arrangements to ensure (a) that funds are used only for the intended purposes in an efficient and economical way, (b) that accurate, reliable, and timely periodic financial reports are produced, and (c) that the implementing entities assets are safeguarded.

3. **Financial management entity.** Project financial arrangements will be coordinated and managed by the EIC and its PCU. The funds of IDA will be channeled to the EIC which will assume overall financial

management responsibility for the project funds. The EIC will at least ensure that: (i) the project financial management activities are carried out efficiently and in accordance with acceptable accounting standards; (ii) the project financial affairs and administration are carried out as per the Financing Agreement; (iii) qualified accountants are recruited/ assigned to handle the project funds; (iv) adequate internal controls are in place and internal auditors provide regular support to the project; and (v) the project financial transactions are audited by an independent external auditor in accordance with international standards on auditing. No funds (money) will be transferred beyond EIC. Although ARRA, MoLSA, BoLSA, and IPDC may be beneficiaries of the project, actual money will not be sent/transferred to these institutions. EIC will manage all resources and will procure the required goods or services or pay on behalf of the beneficiary institutions for the agreed activities (rather than advancing them with cash and expecting them to account).

4. **Budgeting arrangements.** The EIC's budgeting process follows the Federal GoE's budgeting procedure[11] and calendar. The project will follow the Federal GoE's budgeting procedure and calendar. Although the financial year for ARRA runs from January 1 to December 31 each year, for the project, ARRA will follow the Government budget calendar. The PCU at the EIC (in consultation with benefiting entities, as appropriate) will prepare an annual work plan and budget for the project, based on the project's objectives and resources. The work plan and budgets will identify the activities to be undertaken by the implementing entity. The project budget preparation should be prudent, realistic, and made with professional estimates to avoid unrealistic budgets. Once the budget is prepared and approved by the management of the project it will be submitted to the World Bank for no objection

5. The major source of finance for the annual budget of ARRA is UNHCR's installments. A decentralized budget system is followed. Each Refugee Camp prepares its annual budget and submits it to their respective Zone Office. After the Zone office consolidates the camps' budgets, a budget hearing is conducted at the Zone Office in the presence of UNHCR officials. Zone Offices then send the recommended budget to ARRA's headquarters. At headquarters, a consolidated budget (Zone Offices and headquarters budget) is prepared and discussion is conducted on the consolidated budget in the presence of all concerned bodies. The approved budget is then sent to UNHCR. Finally, UNHCR notifies ARRA of the approved amount of the annual budget through a letter.

6. The budget control of the two entities is satisfactory. Before effecting payment, the transaction requested for payment is checked against the approved budget and availability of sufficient uncommitted budget balance. The EIC uses the IBEX budget control module, while ARRA uses 'FAST' system to track expenditure against budget. In addition, quarterly reports (comparison of budget with actual expenditure) are produced and performance is monitored by management. The existing budget monitoring system at transaction and reporting level will be used for the project. At reporting level, the budget utilization of the Program will be monitored at least quarterly. The budget variances will be adequately explained and justified through the quarterly IFRs.

7. **Accounting arrangements.** The GoE follows a double entry bookkeeping system and modified cash basis of accounting, as documented in the government's accounting manual[12] and these procedures have also been implemented in many regions. The government's accounting manual provides detailed

[11] The federal budgeting process usually starts by issuing the budget preparation note to the BIs. Based on the budget manual, the BIs prepare their budgets in line with the budget ceilings and submit these to MoFED within six weeks following the budget call. The budgets are reviewed at first by MoFED and then by Council of Ministers. The final recommended draft federal budget is sent to parliament in early June and is expected to be cleared at the latest by end of the EFY.

[12] FGE Accounting system, Volume I.

information on the major accounting procedures.[13] The EIC follows the Government accounting system. Currently IBEX is in use for transaction recording and for generating reports. At the EIC, the integrated financial management information system (IFMIS) is under rollout and implementation is expected starting from the current year. The Finance Directorate is responsible for the accounting and reporting tasks. The current number of accounting staff is not adequate to handle the treasury funds. ARRA follows cash basis of accounting with a liquidation period of one month after the end of the fiscal year and uses 'FAST' accounting software which is developed locally. The roll out of the new accounting software (which is also developed locally) is under progress. Accounting manuals are available at both entities. During the assessment team visit, transaction recording was up-to-date at both entities. For this project, the GoE's accounting policies (modified cash basis) and procedures will be applicable. A separate account for the project will be maintained. Accounting software currently being used will also be used for the project. The chart of account will accommodate the requirement of the project that will be designed. Accountants will be recruited and assigned and will handle the accounts of the project (IPF) and the Program (PforR). To ensure smooth implementation of the project, as part of the project's operational manual, the project will have its own financial management manual which will largely follow the government accounting manual, depicting all accounting policies, procedures, internal control issues, financial reporting, fund flow arrangements, budgeting and external audit. When and how this manual will be developed will be further discussed in the coming stages of the project preparation.

8. **Internal control arrangements.** Internal control comprises the entire system of control, financial or otherwise, established by management to (a) carry out the project activities in an orderly and efficient manner, (b) ensure adherence to policies and procedures, and (c) safeguard the assets of the project and secure as far as possible the completeness and accuracy of the financial and other records. The assessment found that the internal control system at the two implementing entities is satisfactory. Government rules/regulations and directives as well as manuals covering internal control procedures will apply to the project. The required internal control procedures are incorporated in the accounting manuals. There is a segregation of duties at these entities (the functions of preparing, certifying and approval of payments - and ordering, receiving and accounting for purchases are clearly delineated). Control over payroll is strong, monthly bank reconciliation is performed for all bank accounts and up-to-date. Cash count is conducted monthly and reconciled with ledger balance. Proper fixed asset register is maintained; fixed assets count is conducted once a year and reconciled with the register. Proper record is maintained to control stock movement. Custodian ship and stock recoding tasks are performed independently.

9. **Internal audit.** The current number of internal auditors at the EIC is not adequate to perform the audit effectively. The internal audit unit at both entities will be staffed adequately and capacity-building trainings will be provided. The project books of account will regularly be reviewed by internal auditors.

10. **Funds flow and disbursement arrangements (Designated Account).** IDA funds will be deposited into a separate designated account to be opened at the NBE. The authorized ceiling of the designated account will be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the designated accounts will be further transferred into a Birr account to be held separately for the project by the EIC.

[13] The main elements of the accounting reform are the adoption of (a) a comprehensive Chart of Accounts consistent with the budget classification; (b) a system of ledgers accommodating all types of accounts (including transfers, assets, liabilities, and fund balance in addition to revenues and expenditures); (c) double-entry bookkeeping (thus, a self-balancing set of accounts); (d) a system of control for budgetary commitments (recording commitments as well as actual payments); (e) modified cash basis transaction accounting; and (f) revised monthly report formats to accommodate double-entry bookkeeping and commitment control and permit better cash control

11. **Disbursement methods.** The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement, and Special Commitment. The project will use a report-based disbursement.

12. **Financial reporting arrangements.** The EIC follows the Government reporting system. The Commission submits monthly financial statements to MoFEC in soft and hard copies within the stipulated deadline (within 15 days after the month end). The commission also closed the EFY 2009 accounts and submitted them to MoFEC and OFAG. ARRA submits quarterly the implementing partner financial monitoring report (IPFMR) to UNHCR which includes both financial and physical activity report. For this project, quarterly IFRs will be required from the project. The EIC will prepare quarterly financial statements for the project and submit to the World Bank within 45 days of the end of the quarter. The contents of the IFR will include narrations or explanations on financial performance, statement of sources and use of funds, statement of use of funds by project activity/component, designated account activity statements, statement of cash forecast, trial balances and other related schedules. The format and content of the IFR was agreed between the World Bank and EIC during negotiations. The project will also prepare the project's annual accounts/financial statements within three months after the end of the accounting year in accordance with accounting standards acceptable to the World Bank.

13. **External auditing arrangements.** The books of account of both entities are audited annually. The audit is up-to-date and there is no backlog. The follow up of management to improve the audit findings is found to be satisfactory at the entities. For the project, annual audited financial statements and audit reports (including a management letter) will be submitted to the World Bank within 6 months from the end of the EFY. The annual financial statements will be prepared in accordance with the standards indicated in the audit terms of reference. The audit will be carried out by OFAG or a qualified auditor nominated by OFAG and acceptable to the World Bank. The audit will be carried out in accordance with the International Standards of Auditing issued by the International Federation of Accountants. In accordance with the World Bank's policies, the World Bank requires that the client disclose the audited financial statements in a manner acceptable to the World Bank; following the World Bank's formal receipt of the statements from the client, the World Bank makes them available to the public in accordance with the World Bank Policy on Access to Information

14. **Financial management-related costs.** The project work plans and budget will include the costs of (a) audit costs, (b) financial management-related trainings; and, (c) bank charges.

15. **FM risk assessment strengths, weaknesses, action plan.** The financial management risk of the project is Substantial. The preliminary mitigating measures proposed in the action plan will help to reduce the risk of the project once implemented and applied during project implementation. The project will inherit the various strengths of the country's PFM system. The financial management performance is found to be robust. The budget is prepared and approved per the budget calendar, there is a good budget monitoring system, good accounting and internal control system, financial reports are prepared in a timely manner and subject to annual external audit. The main drawbacks are weak internal audit function, inadequate manpower at finance sections, and inadequate capacity-building activities. In addition, both entities are new to the operation of World Bank projects.

16. **Financial management action plan.** Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated Substantial. The following actions are agreed to be performed to mitigate the identified risks in the project.

**Table 1.5. Financial Management Action Plan**

| | Action | Date Due By | Responsible |
|---|---|---|---|
| 1 | Prepare POM which incorporates financial management manual | During implementation | PCU |
| 2 | Recruit one accountant at the EIC who handle both IPF and PforR account | As soon as possible | PCU |
| 3 | Implementing entities will strengthen internal audit units by filling vacant posts and by providing regular capacity building. Internal auditors will include the project in their annual plans and will perform an audit on an ongoing basis | During implementation | EIC and ARRA |
| 4 | IFR/Report issues<br>1. Trainings will be provided by the World Bank<br>2. Quarterly submission of IFRs | 1. Within 2 months of effectiveness<br>2. Within 45 days of the end of quarter | 1. EIC and World Bank<br>2. World Bank<br>3. EIC |
| 5 | Audit issues<br>1. Recruitment of external auditors at early stages of the project;<br>2. Project annual financial statements will be prepared on time and on timely closure of accounts will be made.<br>3. Submission of annual audited financial statements and audit report, including the management letter;<br>4. Disclosure in accordance with World Bank Policy. The World Bank requires that the client disclose the audited financial statements in a manner acceptable to the World Bank; Following the World Bank's formal receipt of these statements from the client, the World Bank makes them available to the public in accordance with the World Bank Policy on Access to Information. | 1. Within 6 months of effectiveness<br>2. Within 3 months of year end<br>3. Within 6 months of the end of each EFY<br>4. Annually | 4. EIC<br>5. EIC and World Bank |

17. *FM covenant and other agreements:* The following are financial management covenants relevant for the IPF.

(a) Maintaining satisfactory financial management system throughout the life of the project,

(b) Submitting IFRs within 45 days of the quarter end.

(c) Submitting audited financial statements within 6 months of the year end.

18. **Supervision plan.** The overall residual risk rating for the project is substantial; hence the project will have on-field supervision at least twice a year. This is in addition to regular implementation support, desk assessments, quarterly IFR reviews and annual audit report reviews. After the supervisions, the risk will be measured and recalibrated accordingly. Supervision activities will include: the compliance with the agreed upon financial management arrangements, review of quarterly IFRs; review of annual audited financial statements as well as timely follow-up of issues arising; transaction review; participation in project supervision missions as appropriate; and updating the financial management rating in the implementation status report.

19. **Conclusion of the assessment.** The conclusion of the assessment is that the project's financial management arrangements meet the World Bank's minimum requirements under World Bank Policy and World Bank Directive on IPF and financial management manual.

***Procurement***

*Applicable Procurement Regulations*

20. Procurement under the IPF of the Economic Opportunities Program will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers: 'Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services', dated July 1, 2016 revised November 2017; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', revised as of July 1, 2016; and the provisions stipulated in the Legal Agreement

21. The regulations are designed to support a modern, fit for purpose procurement framework. The regulations are guided by the core procurement principles of value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness. The regulations support these core procurement principles by providing many choices for the Borrower to design the right approach to market.

22. The implementing agencies of the IPF will use standard procurement documents issued by the World Bank to be used by borrowers for IPF-financed projects as well as standard bid evaluation forms for procurement of goods, works, and non-consulting contracts, and the sample form of evaluation report for selection of consultants

*National Procurement Procedures*

23. When approaching the national market, as agreed in the procurement plan, the country's own procurement procedures may be used subject to the following requirements as provided in section 5 paragraph 5.4 of the Procurement Regulations for IPF Borrowers (July 1, 2016):

- Open advertising of the procurement opportunity at the national level
- The procurement is open to eligible firms from any country
- The Request for Bids/Request for Proposals document shall require bidders/proposers submitting bids/proposals to present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anticorruption Guidelines, including without limitation to the World Bank's right to sanction and the World Bank's inspection and audit rights
- Contracts with an appropriate allocation of responsibilities, risks, and liabilities
- Publication of contract award information
- Rights for the World Bank to review procurement documentation and activities
- An effective complaint handling mechanism
- Maintenance of records of the procurement process

24. Other national procurement arrangements (other than national open competitive procurement) that may be applied by the borrower (such as Limited/Restricted Competitive Bidding, Request for Quotation/Shopping/Local Bidding, and Direct Contracting), shall be consistent with the World Bank's core procurement principles and ensure that the World Bank's Anticorruption Guidelines and Sanctions Framework and contractual remedies set out in its Legal Agreement apply.

*Procurement Oversight and Monitoring Arrangements*

25. Mandatory thresholds for prior review for the proposed program based on procurement risk levels of the project are provided in table 1.6. Based on the risk level of the program, procurement above the applicable thresholds as provided in the table shall be subject to prior review. Such procurement activities shall use the World Bank's Standard Procurement Documents. For contracts to be awarded using Direct Selection, the Borrower shall submit to IDA, for its review and 'no-objection', a sufficiently detailed justification, before inviting the firm to negotiations.

**Table 1.6. Thresholds for Procurement Approaches and Methods (US$, million)**

| Category | Prior Review (US$, million) | Open International | Open National | RFQ | Shortlist of National Consultants | |
|---|---|---|---|---|---|---|
| | | | | | Consulting Services | Engineering and Construction Supervision |
| Works | ≥5.0 | ≥7.0 | <7.0 | ≤0.2 | n.a. | n.a. |
| Goods, information technology, and non-consulting services | ≥1.5 | ≥1.0 | <1.0 | ≤0.1 | n.a. | n.a. |
| Consultants (firms) | ≥0.5 | n.a. | n.a. | n.a. | 0.2 | 0.3 |
| Individual consultants | ≥0.2 | n.a. | n.a. | n.a. | n.a. | n.a. |

*Assessment of the Agencies' Capacity to Implement Procurement*

26. An integrated fiduciary assessment of the implementing agencies was carried out by the World Bank as part of the preparation of the Economic Opportunities Program. The assessment covered among others the EIC, the agency which is responsible for the implementation of the IPF. The assessment reviewed the institutional arrangement for implementing the proposed IPF and staff responsible for procurement in the implementing agencies. The assessment also considered the legal aspects and procurement practices, procurement cycle management, organization and functions, planning, record keeping, and the procurement environment. Procurement systems of the implementing agencies were assessed to determine the extent to which planning, bidding, evaluation, contract award and contract administration arrangements and practices, procurement oversight and complaint handling mechanisms provide a reasonable assurance that the IPF will achieve intended results through its procurement processes and procedures.

27. The assessment has indicated that procurement planning and using procurement plans as monitoring and management decision making tools is not a common practice in the implementing agency responsible for the IPF. Moreover, the assessment has indicated that the implementing agency is characterized by a low level of procurement management capacity, lack of procurement proficient staff,

inadequate system for procurement record keeping, inadequate capacity for procurement processing and contract management. In general, the procurement capacity of the implementing agency needs reasonable improvement to handle procurement activities under the proposed IPF.

28. Moreover, the proposed project is to be carried out using the New Procurement Framework. Capacity-building effort to familiarize the procurement and related staff with the Procurement Regulations for IPF Borrowers is considered and included in the design of the project

29. Key issues and associated mitigation measures that have been discussed and agreed upon are shown in table 1.7.

**Table 1.7. Summary of Findings and Actions (risk mitigation matrix)**

| # | Issue/Risk | Severity and Impact | Mitigation Measures | Responsibility and Time Frame (all actions to be taken within the first three months of the credit approval) |
|---|---|---|---|---|
| 1 | Lack of procurement-proficient and contract management staff in the EIC and ARRA | High | Provide attractive remuneration and conducive work environment to attract procurement proficient and qualified contract management staff | EIC |
| 2. | Lack of experience in the New Procurement Framework of the World Bank | High | Arrange basic training on Management of Procurement of Goods, Works, and Services and the World Bank's New Procurement Framework to procurement and related staff of the EIC and ARRA | EIC/World Bank |
| 3 | Low quality and incomplete bidding documents/RFQs | Substantial | Create capacity on the preparation of SBDs/RFQs with the objective of producing and issuing quality BDs/RFQs | EIC/World Bank |
| 4 | Inadequate record management system; inadequate facilities, for safe and secure record keeping in implementing agencies | Substantial | Establish record management system and provide the necessary facilities to keep records in safe and secure place with no access to unauthorized personnel; | EIC/World Bank |
| **5** | Inadequate contract management practice | Substantial | Training to be provided on the basics of contract management | EIC/World Bank |

*Procurement Plan*

30. The EIC has prepared the PPSD which forms the basis for a procurement plan for the first 18 months of the IPF and which also provides the basis for the procurement methods. This plan was agreed between the EIC and the project team and will be available at the Procurement and Property Administration (PPA) Directorate) of the EIC. It will also be available in the project's database and in the World Bank's

external website. The procurement plan will be updated by the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

*Procurement Arrangement and Value for Money*

31. The IPF aims to support EIC and ARRA, the key institutions responsible for implementing the industrialization and refugee agendas, respectively, under the Economic Opportunities Program. The IPF shall support the EIC to set up and establish the PCU including the M&E system to track results delivered. The IPF shall also support ARRA to enhance operations management capacity to implement the Government's pledges. It shall also provide for EPP for refugees and support to PES for Ethiopians. This support under the IPF shall be in terms of the provision of consultancy services, training programs, and operational support.

32. The procurement objective of the IPF is to deliver best quality capacity-building consultancy services for the EIC and ARRA. To attain this objective, attaining value for money through integrity and sustainable development shall be upheld.

33. The procurement arrangements provided in the PPSD for this project are aimed at attaining value for money in the procurement of services. Apart from provision of training and operation support, the key input under the IPF is the provision of technical assistance. The technical assistance consists of low-value contracts with relatively low risk. However, the provision of the consulting service for the EPP is a relatively high value contract. Hence, to attain value for money, procurement arrangements shall be made in such a way that the EIC and ARRA achieve the best available consulting firms at reasonable prices. To achieve this, risk mitigation measures outlined below need to be fully implemented.

*Procurement Risk Analysis*

34. In the PPSD prepared for the IPF, a risk analysis of the procurement activities was carried out. It is noted that procurement activities under the project are consultancy services aimed at capacity strengthening and supporting the management, implementation and monitoring of the project. The risks associated with the procurement activities under this component are identified and risk mitigation measures are put in place.

35. The EIC will implement the IPF, but ARRA will be a beneficiary of the financing. Thus, ARRA shall participate in the selection process and the implementation of the procurement activities aimed at strengthening ARRA. However, the procurement of goods and hiring of consultancy services under the IPF shall be carried out centrally by the EIC. The EIC does not have previous experience in implementation of such high value consultancy contracts. Moreover, there is a risk that the EIC may not implement the procurement activities as per the agreed procedures due to lack of procurement proficient personnel and lack of experience in handling such a high value consultancy contracts. To address this, the EIC shall recruit and deploy procurement proficient staff, and provide procurement and related staff with training on World Bank procurement procedures. Offering of regular training is important to mitigate the risk of high level of staff turnover.

**Table 1.8. Procurement Risk and Mitigation Measures**

| Risk Description | Likelihood Rating (A) | Impact Rating (B) | Duration Rating (C) | Overall risk Rating (A*B*C) | Description of Proposed Mitigation Measures |
|---|---|---|---|---|---|
| Limited number of consulting firms for EPP and other consulting assignments | S | S | S | S | The EIC to engage with the market through pre-bid meeting, supplier conferences, and so on. |

| | | | | | |
|---|---|---|---|---|---|
| Delay in RFP preparation, evaluation, award and signing of contracts and contract management | H | H | H | H | Planned procurement of consulting services |
| Unavailability of qualified procurement and contract management staff at the EIC | H | H | H | H | The EIC to provide adequate remuneration and conducive work environment for procurement and contract management staff |
| Lack of experience in the new procurement framework of the World Bank | H | H | H | H | Quality training in World Bank's new procurement framework procedures |
| Lack of procurement oversight in the EIC and ARRA | H | H | H | H | Carry out annual independent procurement audit along with the procurement audit for the PforR program. |

*Procurement Arrangements*

36. There is one High risk high-value consultancy contract under the IPF. The procurement arrangements for low value contracts is agreed with the client and is provided in the PPSD.

*Procurement Management Covenant*

37. Government shall appoint an independent procurement auditor for carrying out an annual procurement audit of the IPF along with the PforR procurement audit and shall submit the report to the World Bank before six months after the end of each EFY.

## Annex 2: Results Framework Matrix

### Ethiopia Economic Opportunities Program (P163829)

**The Project Development Objective (PDO) is to provide economic opportunites for Ethiopians and refugees in an environmentally and socially sustainable way.**

| PforR Supported Results Areas | PDO/Outcome Indicators | Intermediate Results Indicators | DLI # | Unit of Measure | Baseline July 2017 | End Target June 2024 |
|---|---|---|---|---|---|---|
| **Refugee-related Employment and Protection** | **PDO Indicator 1**: Number of refugees with access to economic opportunities (including # women and youth) | | **1** | **Number** | **0** | **30,000** |
| | | **IR Indicator 1.1**: Promulgation of the new Refugees Proclamation by the Parliament | **1** | **Yes/No** | **No** | **Yes** |
| | | **IR Indicator 1.2**: Number of refugees benefitting from services offered through EPP package | **1** | **Number** | **0** | **5,000** |
| **Improving the Investment Climate** | **PDO Indicator 2:** Number of Ethiopians with access to economic opportunities (including # women and youth) | | **2** | **Number** | **0** | **45,000** |
| | | **IR Indicator 2.1:** Private sector investment catalyzed (signed MoUs) in industrial parks supported by the Program | **2** | **Number** | **3** | **31** |
| | | **IR Indicator 2.2:** Number of targeted investment facilitations by EIC | **2** | **Number** | **250** | **850** |
| | | **IR Indicator 2.3:** Directives amended to permit establishment of foreign exchange accounts and to permit higher debt-equity ratio for foreign investors | **2** | **Yes/No** | **No** | **Yes** |
| | | **IR Indicator 2.4:** An investment promotion strategy adopted by EIC | **2** | **Yes/No** | **No** | **Yes** |
| | | **IR Indicator 2.5:** Number of new leads for Business-to-Business (B2B) matches between | **2** | **Number** | **5** | **50** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | local suppliers and international purchasers in competitive export sectors. | | | | |
| **Improving Labor Productivity and Quality of Jobs** | **PDO Indicator 3:** Disclosure of Better Work synthesis compliance reports (tracking at least 15 indicators) and MoLSA synthesis inspection reports done in collaboration with Better Work. | | **3** | **Yes/No** | **No** | **Yes** |
| **Enhancing the Sustainability of Existing Industrial Parks** | | **IR Indicator 3.1:** Environmental standards and guidelines for industrial parks developed | **4** | **Number** | **0** | **1** |
| | | **IR Indicator 3.2:** Ethiopian Investment Board Decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle or Kombolcha Industrial Park | **4** | **Number** | **0** | **5** |
| **Social Safeguards** | **PDO Indicator 4:** Percentage of refugee hosting communities with functional ARRA local facilitation and support branches | | **4** | **Percent** | **0** | **80** |
| | | **IR Indicator 4.1:** Percentage of refugee hosting communities with functional grievance redress mechanisms in place | **4** | **Percent** | **0** | **80** |
| **Governance** | | **IR Indicator 5.1:** A formal domestic MoU is signed between FEAAC and the Office of the Attorney General to formalize their cooperation and sharing of information on fraud and corruption allegations, investigations and actions taken on the World Bank-financed projects and programs for FEACC to meet the requirement of the external MoU signed with the World Bank's INT. | **5** | **Yes/No** | **0** | **Yes** |
| | | **IR Indicator 5.2:** MoLSA, EIC, ARRA, and IPDC establish a system for recording, reporting and information sharing for handling maladministration, procurement, and corruption complaints (including compiled reports on complaints). | **5** | **Yes/No** | **No** | **Yes** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Citizen Engagement** | | **IR Indicator 6.1:** Share of factory workers (including refugees) reporting satisfaction with their workplace condition in the existing industrial parks (including number of women) | — | **Percent** | **TBD** | **TBD** |
| **Corporate Scorecard Indicator** | | **IR Indicator 7.1:** Number of project beneficiaries reached by jobs-focused World Bank Group interventions (industrial park workers, refugees out of camp, and enterprises) | — | **Number** | **0** | **75,000** |

**Indicator Description**

| **Indicator Name (#)** | **Description (Clear definition)** | **Frequency** | **Data Source** | **Methodology for data collection** | **Responsibility for Data Collection** | **DLIs** | |
|---|---|---|---|---|---|---|---|
| | | | | | | **Responsibility for Data Verification** | **Scalability of Disbursement (Yes/No)** |
| **PDO Indicator 1:** Number of refugees with access to economic opportunities | This PDO indicator will track formal wage-earning employment, self-employment and right to engage in commercial activities in accordance with the Refugees Proclamation and other applicable legislation and/or regulations.<br><br>This could include work permits issued by government agencies (EIC, MoLSA), residence IDs that enable refugees to work formally, and any other documents as agreed through secondary legislation. Economic opportunities must be related to (a) formal entrepreneurship, (b) own account self-employment, and (c) formal wage employment. | Monthly | Administrative records of the EIC, MoLSA, and ARRA | Template to collect data from relevant agencies | The PCU in collaboration with relevant government bodies | Independent agent hired by the PCU | Yes |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **IR Indicator 1.1:** Promulgation of the new proclamation on refugees by the Parliament | This indicator tracks promulgation of the new Refugees Proclamation by the Parliament which will legalize the refugee pledges of the GoE. | n.a. | Gazette notification of the Government | A copy of the proclamation | PCU | Independent agent hired by the PCU | No |
| **IR Indicator 1.2:** Number of refugees benefitting from services offered through EPP package | This indicator tracks number of refugees benefitting from services offered through the EPP package. Services may include (a) refugee engagement and enrollment, (b) preplacement preparation, and (c) in-work support. | Monthly | Implementation entity hired to deliver employment promotion and protection package | To be tracked by the implementation entity | The PCU in collaboration with relevant government bodies | Independent agent hired by the PCU | n.a. - not linked to disbursement |
| **PDO Indicator 2:** Number of Ethiopians with access to economic opportunities (including # women and youth) | This indicator will track Ethiopians who have obtained economic opportunities through (a) jobs created by investors attracted and facilitated by the EIC for existing industrial parks (excluding jobs taken by refugees), (b) jobs created by links made between international buyers and local suppliers, and (c) Ethiopians matched to jobs by BoLSAs receiving technical assistance support. Data will be disaggregated by female, male, and youth. | Biannually | EIC database<br><br>BoLSA/MoLSA records | Reporting template | PCU | Independent agent hired by the PCU | n.a. - not linked to disbursement |
| **IR Indicator 2.1:** Signed MoUs in industrial parks supported by the Program | This indicator will track the total number of signed MoUs between the EIC and investors in industrial parks. | Biannually | EIC database | Reporting template | PCU | Independent agent hired by the PCU | n.a. - not linked to disbursement |
| **IR Indicator 2.2:** Targeted investment facilitations by EIC | Investment facilitation includes: (i) site visits arranged for investors; (ii) | Biannually | EIC database | Reporting template | PCU | Independent agent hired by the PCU | Yes |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | matches made between buyers and suppliers (defined through a contractual relationship between a buyer and supplier); (iii) aftercare provided resulting in successful resolution.<br><br>**Investor.** A foreign or local firm that intends to make a new investment in the location directly or through some subsidiary. | | | | | | |
| **IR Indicator 2.3:** Amend the forex retention policy and change in the debt-equity ratio for investors to facilitate and attract investment | This indicator tracks the amendments to the forex policy and change in the debt-equity ratio for investors. | Annually | Notification by government | A copy of the amended policy | PCU | Independent agent hired by the PCU | No |
| **IR Indicator 2.4:** An investment promotion strategy adopted by EIC | This indicator tracks the adoption of the Ethiopia's investment promotion by the Board of Investment. | Annually | EIC | Adopted document | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **IR Indicator 2.5:** Number of Business-to-Business (B2B) matches between suppliers and buyers in export sectors | This indicator tracks the number of matches made between suppliers and buyers in export sectors (disaggregated by national and foreign). A match is defined as a contractual relationship between a supplier and buyer. | Biannually | EIC | To be tracked by the implementation entity | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **PDO Indicator 3**: Annual disclosure of Better Work synthesis compliance report | This indicator tracks the introduction and public disclosure of Better Work report on compliance with labor standards | Annually | EIC | Annual synthesis report disclosed on 'Better Work' website | PCU | Independent agent hired by the PCU | No |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **IR Indicator 3.1:** Environmental standards and guidelines for industrial parks developed | Environmental standards and guidelines for industrial parks developed. | Annually | EIC | Copy of guidelines sent | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **IR Indicator 3.2:** Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | Decision made on feasibility studies that include legal, social, environment, financial, and market due diligence. The feasibility study should identify if there is an urban masterplan that includes the industrial park and identify any gaps and recommendations on urban planning. | Annually | EIC | Copy of feasibility studies sent | PCU | Independent agent hired by the PCU | Yes |
| **PDO Indicator 4:** Percentage of refugee hosting communities with functional ARRA local facilitation and support branches | Functional facilitation and support branch encompasses at least 1 social ARRA staff, office materials, and opening hours of at least 30 hours per week. The office shall be easily accessible and open for refugees but also for citizens with refugee-related concerns. | Biannually | ARRA | Field visits to support branches | PCU | Independent agent hired by the PCU | Yes |
| **IR Indicator 4.1:** Percentage of refugee hosting communities with functional grievance redress mechanisms in place | Functional GRMs defined as being adequately resourced (human, financial, technological) to address grievances from affected persons and groups. | Biannually | ARRA | Assessment of GRMs established and/or survey of refugee beneficiaries | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **IR Indicator 5.2:** Establish/Strengthen with Federal Attorney General, Federal Police **and REACCs.** | MoU that governs the relationship between FEACC and Attorney General will be signed | First year | EIC | | PCU/World Bank | Independent agent hired by the PCU | n.a. - not linked to DLI |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **IR Indicator 5.2:** Establish system of recording, reporting and information sharing for handling maladministration, procurement, and corruption complaints (including compiled reports on complaints) | System must include mechanisms for recording, reporting and information for handling complaints. | Annually | EIC | Assessment of established systems for handling complaints | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **Citizen Engagement IR Indicator 6.1:** Share of workers reporting satisfaction with their workplace condition in the existing industrial parks | This indicator tracks level of satisfaction of factory workers (including refugees) within the existing industrial parks. This indicator will be tracked through a survey of factory-level compliance. | Annually | EIC | Reporting template | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |
| **Corporate Scorecard IR Indicator 7.1**: Number of program beneficiaries | This is a corporate results indicator. This indicator tracks number of refugees and Ethiopians benefitting from the project interventions. To avoid duplication, one beneficiary will be counted only once. Data will be disaggregated gender and age group. | Annually | EIC, ARRA | Reporting template | PCU | Independent agent hired by the PCU | n.a. - not linked to DLI |

## Annex 3: Disbursement-linked Indicators, Disbursement Arrangements, and Verification Protocols

## Ethiopia Economic Opportunities Program (P163829)

| PforR Results Area | DLI No. | Proposed DLI | Financing allocated (US$, million) | Prior Result | Baseline | Indicative Timeline for DLI Achievement (cumulative) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Year 0 (ending at effectiveness) | Year 1 (ending July 7, 2019) | Year 2 (ending July 7, 2020) | Year 3 (ending July 7, 2021) | Year 4 (ending July 7, 2022) | Year 5 (ending July 7, 2023) | Year 6 (ending July 7, 2024) |
| **Providing access to economic opportunities for refugees** | 1 | Number of refugees with access to economic opportunities | 116.12 | Refugees Proclamation promulgated | 0 | Refugees Proclamation Promulgated | 100 | 2,600 | 7,600 | 17,600 | 24,000 | 30,000 |
| **Improving the Investment Climate** | 2 | Number of targeted investment facilitations by EIC increased | 52.5 | Amend the forex retention policy and change the debt-equity ratio for investors to facilitate and attract investment | 250 | NBE Directives amended to permit establishment of foreign exchange accounts and to permit higher debt-equity ratio for foreign investors | 550 | 850 | 1150 | 1450 | 1750 | n.a. |
| **Improving Labor Productivity and Quality of Jobs** | 3 | Disclosure of Better Work compliance synthesis reports and MoLSA synthesis inspection reports | 25 | Establishment of labor unit (OSS within industrial parks) | 0 | One labor unit established in each of Bole Lemi I, Hawassa, Mekelle | — | Annual disclosure of Better Work synthesis compliance report | Annual disclosure of Better Work synthesis compliance report | Annual disclosure of Better Work synthesis compliance reports and completion of MoLSA synthesis | Annual disclosure of Better Work synthesis compliance reports and completion of MoLSA synthesis | Annual disclosure of Better Work synthesis compliance reports |

| PforR Results Area | DLI No. | Proposed DLI | Financing allocated (US$, million) | Prior Result | Baseline | Indicative Timeline for DLI Achievement (cumulative) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Year 0 (ending at effectiveness) | Year 1 (ending July 7, 2019) | Year 2 (ending July 7, 2020) | Year 3 (ending July 7, 2021) | Year 4 (ending July 7, 2022) | Year 5 (ending July 7, 2023) | Year 6 (ending July 7, 2024) |
| | | | | | | and Kombolcha industrial parks | | | | inspection report for year ending July 7, 2022 to be submitted by December 31, 2022 | inspection report for year ending July 7, 2023 to be submitted by December 31, 2023 | |
| **Enhancing the Sustainability of Existing Industrial Parks** | 4 | Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | 30 | n.a. | 0 | n.a. | 0 | 1 | 2 | 3 | 4 | 5 |
| **Fiduciary Systems Strengthening** | 5a<br><br>5b | Procurement Directives and Manuals issued and used by IPDC and ARRA based on a legal framework issued by Federal Government<br><br>IPDC unqualified/clean entity | 10 | n.a. | Directives without legal framework<br><br>Financial stateme | n.a. | Procurement Directives and Manuals issued, made public and used by IPDC and ARRA based on a legal framework issued by the Federal | Procurement Directives and Manuals issued, made public and used by IPDC and ARRA based on a legal framework issued by the Federal | — | — | — | — |

| PforR Results Area | DLI No. | Proposed DLI | Financing allocated (US$, million) | Prior Result | Baseline | Indicative Timeline for DLI Achievement (cumulative) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Year 0 (ending at effectiveness) | Year 1 (ending July 7, 2019) | Year 2 (ending July 7, 2020) | Year 3 (ending July 7, 2021) | Year 4 (ending July 7, 2022) | Year 5 (ending July 7, 2023) | Year 6 (ending July 7, 2024) |
| | | financial audit report issued, based on IFRS-compliant financial statements, and submitted on time | | | nts audited are not prepared following IFRS | | Government | Government | | | | |
| | | | | | | | — | — | Year ended July 7, 2020 IFRS compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2021 | Year ended July 7, 2021 IFRS compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2022 | Year ended July 7, 2022 IFRS compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2023 | Year ended July 7, 2023 IFRS compliant financial statement is audited and the audit report is submitted with a clean or unqualified audit opinion on time by January 7, 2024 |
| **Safeguards Systems Strengthening** | 6a | An established environmental and social risk management system addresses respective risks | 30 | n.a. | | n.a. | ARRA, EIC, IPDC and MoLSA, each have sufficient and qualified staff to develop and implement the E&S System by July 7, 2019 | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities | ARRA local facilitation and support branches are established and functional for all refugee-hosting communities |

| PforR Results Area | DLI No. | Proposed DLI | Financing allocated (US$, million) | Prior Result | Baseline | Indicative Timeline for DLI Achievement (cumulative) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Year 0 (ending at effectiveness) | Year 1 (ending July 7, 2019) | Year 2 (ending July 7, 2020) | Year 3 (ending July 7, 2021) | Year 4 (ending July 7, 2022) | Year 5 (ending July 7, 2023) | Year 6 (ending July 7, 2024) |
| | 6b | | | | 0 | | Functional refugee tracking system established by July 7, 2019 | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities | NRCs established for all refugee-hosting communities |
| | 6c | | | | 0 | | — | Proof of community consultations | Community intervention (A.M.= US150) | Community intervention (A.M.= US$100) | Community intervention (A.M.= US$75) | Community intervention (A.M.= US$50) |
| | 6d | | | | 0 | | E&S System developed by ARRA, EIC, IPDC and MoLSA, by July 7, 2019 | Training of IPDC on management of E&S System in operation activities by July 7, 2020 | E&S audit on project activities conducted (including involved industrial parks) with a specific corrective action plan by July 7, 2021 | Adaptation and adoption of pilot lessons-learned document by ARRA and the EIC, including a respective action plan | Audit of the E&S System and implementation of corrective actions addressing audit results by July 7, 2023 | Refresher IPDC on management of E&S System in Operation activities by July 7, 2024 |

## Annex 3.1. DLI Verification Protocol Table

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| 1 | Number of refugees with access to economic opportunities | **DLR 1.1 (Prior result):** Refugees Proclamation promulgated<br><br>Promulgation of the Refugees Proclamation means endorsement by Parliament, signature by the President and publication in the Federal Negarit Gazette. | No | Federal Negarit Gazette | Independent agent hired by the PCU | The verification entity will check the final version of the Refugees Proclamation and its publication in the Federal Negarit Gazette. As part of its due process, the WB will facilitate a legal opinion by UNHCR to ensure it meets the international refugee law standards as defined under the 1951 Refugee Convention and the 1969 OAU Convention. The verification entity will include this as part of the its verification procedure. |
| | | **DLR 1.2–1.3: Refugees received economic opportunities**<br><br>This result is achieved when recognized refugees are provided economic opportunities in wage earning employment or are issued permits to engage in self-employment and commercial activities. This could include work permits issued by government agencies (EIC, MoLSA), residence IDs that enable refugees to work formally, and any other documents as specified through secondary legislation. Economic opportunities must be related to (a) formal entrepreneurship, (b) own account self-employment and, and (c) | Yes | EIC (work permits in industrial parks)<br>MoLSA<br>ARRA<br>Ministry of Trade | Independent agent hired by the PCU | MoLSA, EIC, ARRA, Ministry of Trade (or any other authorized agency) will provide at minimum the following information from their databases/registries: refugee ID number, contact information (cell phone, and so on.), registration number for document providing formal employment.<br>Verification entity will carry out a second level of |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | formal wage employment. Renewals will not be counted towards the DLI achievement. | | | | verification to corroborate the information based on a random sample. The verification report should be issued within two months following the PCU notification. |
| 2 | Number of targeted investment facilitations by EIC increased | **DLR 2.1 (prior result): NBE Directives amended to permit establishment of foreign exchange accounts and to permit higher debt-equity ratio for foreign investors**<br><br>The forex retention policy must allow for the opening of foreign exchange retention accounts for eligible goods and services. The amendment of the debt-equity ratio must result in an increase of the debt to equity ratio for foreign investors to access a loan.<br><br>**DLR 2.2: Number of targeted investment facilitations**<br>Investment facilitation includes: (i) site visits arranged for investors; (ii) processed visas; (iii) matches made between buyers and suppliers (defined through a contractual relationship between a buyer and supplier); (iii) documents prepared on behalf of investors (MoUs, lease agreements); (iv) licenses issued; (v) aftercare provided resulting in successful resolution. | No<br><br><br><br><br><br><br><br><br><br><br><br><br>Yes | EIC | Independent agent hired by the PCU | The verification entity will check the relevant directives (NBE External Loan and Supplier's Credit Directives No. FXD/47/2017 and Retention and Utilization of Export Earnings and Inward Remittances Directive No. FXD/48/2017 have been amended.<br><br>Upon notification from the PCU, the verification entity will check the CRM database and relevant evidence (such as MoU, licenses, and so on.) of the EIC.<br><br>For (i) site visits arranged for investors: the primary evidence will be the site visit registry/logbook signed by each investor with a feedback note. In addition, pictures from site visit; and/or media |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | | | | | coverage will also be considered as evidence;<br><br>For (ii) processed visas: this mainly covers business visas facilitated through the EIC - investor visa and work visas for expatriate employees of investors. This will be verified through a copy of visa advice letters written by the Department for Immigration and National Affairs;<br><br>For (iii) matches made between buyers and suppliers: to be verified through signed copies of sales/supply contracts;<br><br>For (iv) documents prepared on behalf of investors (MoUs, lease agreements): signed copy of MoUs, lease agreements and other similar formal documents will be verified;<br><br>For (v) licenses issued: this will mainly cover licenses issued by the EIC - investment permit, business license and expansion permit - to be verified |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | | | | | through copies of the licenses and permits;<br><br>For (vi) aftercare provided resulting in successful resolution: this will mainly cover establishment issues/constraints of investors resolved through facilitation and problem-solving services of the EIC aftercare department - mainly issues on access to land, basic infrastructure (electricity and water) and loan/finance. Issues tracking tool available at the EIC aftercare department will be used to verify number of issues addressed and resolved.<br><br>The verification entity will review and confirm the counting and perform random checks of the facilitated investments by directly contacting the investors, as appropriate. The verification report should be issued within two months following notification from the PCU. |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| 3 | Disclosure of Better Work synthesis compliance reports and MoLSA inspection reports done in collaboration with Better Work | **DLR 3.1 (prior result): One labor unit established in each of Bole Lemi I, Hawassa, Mekelle, and Kombolcha industrial parks.**<br><br>Established means that managers are hired and the units are equipped with office space, furniture, electronics and stationary materials. In addition, the necessary manuals and guidelines for the operation of the OSS must be in place. | Yes | EIC | Independent agent hired by the PCU | The verification entity will conduct field visits to each OSS to confirm that labor units have been established as well as verify that employment contract(s) for relevant staff have been accepted. |
| | | **DLR 3.2: Annual disclosure of Better Work synthesis compliance report**<br><br>Annual disclosure on the Better Work website.<br><br>**DLR 3.3: Completion of MoLSA synthesis inspection report for year ending July 7, 2022, to be submitted by December 31, 2022, and for year ending July 7, 2023, to be submitted by December 31, 2023.**<br><br>The report must include a summary of findings across industries/regions and recommended follow-up actions and needs to be endorsed/approved by MoLSA senior management by the end of four months following the reference year. | No | MoLSA inspection department | Independent agent hired by the PCU | Upon notification from the PCU, the verification entity will check the Better Work website each year to verify public disclosure.<br><br>The verification entity will confirm that the report is submitted within the agreed timelines and includes a summary of findings, recommended follow-up actions and endorsement/approval by MoLSA senior management. |
| 4 | Ethiopian Investment Board decision made on feasibility study of private | **DLR 4.1: Five (5) EIB Decisions with at least one decision per industrial park**<br><br>The decision must be relevant to the detailed feasibility study that is prepared and include an explanation whether a private sector led | Yes | EIC | Independent agent hired by the PCU | Upon notification from the PCU, the verification entity will check the robustness of the detailed feasibility study and the summary of the |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | option is feasible and include at least one decision per industrial park.<br><br>EIC should ensure that the detailed feasibility study include legal, social, environment, financial, and market due diligence. The feasibility study should identify if there is an urban masterplan that includes the industrial park and identify any gaps and recommendations on urban planning. | | | | minutes of the Ethiopian Investment Board.<br><br>The verification report will accompany the documentation submitted by the EIC to the World Bank confirming decision(s) and planned action(s) of the Investment Board. |
| 5a | Procurement directives and manuals issued and used by IPDC and ARRA based on a legal framework issued by Federal Government | **DLR 5.1: Procurement Directives and Manuals issued, made public and used by IPDC and ARRA based on a legal framework issued by the Federal Government for EFY ending July 7, 2019 and July 7, 2020**<br><br>The directives and manuals must be made public and used by IPDC and ARRA based on a legal framework issued by the Federal Government. | No | IPDC, ARRA | Independent agent hired by the PCU | Upon notification from the PCU, a copy the relevant procurement directives and manuals with a copy of the legal framework of the Federal Government used to issue the directives and manuals will be submitted to the World Bank.<br><br>IPDC and ARRA will provide the list of all procurements that they have completed since the issuance of the directives. IPDC and ARRA will apply the procurement directives and manuals to all procurement activities in their respective organizations. The verification entity will confirm based on a random sample check of procurement documents (at |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | | | | | least 30%) in the respective organizations. |
| 5b | Unqualified or clean entity financial audit report of the IPDC that is prepared from IFRS compliant financial statement is submitted on time | **DLR 5.2: Unqualified or clean entity financial audit report of IPDC that is prepared from IFRS compliant financial statement is submitted on time**<br><br>This indicator will be achieved when IPDC audit report for year ended July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023 are submitted respectively by January 7, 2021, January 7, 2022, January 7, 2023 and January 7, 2024. | No | IPDC | Independent agent hired by the PCU | The verification entity will check whether a compliant financial statement is audited and that the audit report is submitted with a clean or unqualified audit opinion on time by the deadline. |
| 6a | An established environmental and social risk management system that addresses respective risks (E&S System) | **DLR 6.1: ARRA, EIC, IPDC and MoLSA, each have sufficient and qualified staff to develop and implement the E&S System by July 7, 2019.**<br><br>Presence of qualified staff in the implementing institutions means, at minimum as follows: EIC: 1 OHS + 1 Gender officer; ARRA: 1 Environment/OHS + 2 Social Development + 2 Gender officers; MoLSA: 2 OHS + 2 Social Development + 2 Gender officers; IPDC: 1 Environment + 1 OHS + 1 Social Development/Gender officer. | No | ARRA, EIC, MoLSA, IPDC | Independent agent hired by the PCU | Verification will be done via the assessment of (i) existing position TORs incl. reporting lines to senior management and (ii) active employment contracts and (iii) CVs of respective officers. |
| | | **DLR 6.4: ARRA local facilitation and support branches functional for all refugee-hosting communities**<br><br>ARRA local facilitation and support branches are established and functional for five years ending July 7, 2020, July 7, 2021, July 7,2022, July 7, 2023 and July 7, 2024 for all | Yes | ARRA | | Verification via (i) active employment contracts and (ii) ToRs for staff, (iii) budget tables for branches, and (iv) site visits and production of visual evidence (at least 5 pictures) of the branches |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | Refugee Hosting Communities. Functional facilitation and support branch encompasses at least 1 social ARRA staff, office materials, and opening hours of at least 30 hours per week. The office shall be easily accessible and open for refugees but also for citizens with refugee-related concerns. | | | | including opening hours sign board. |
| 6b | | **DLR 6.2: Functional Refugee tracking system established by July 7, 2019.**<br><br>Tracking system should be ICT-based system and encompass identifier, names, nationality, age/date of birth, status, and location of all registered refugees. | No | ARRA | | 6b Year 1: Verification via (i) evaluation of the database system incl. spot checks and (ii) disclosure of basic statistics generated out of the database. |
| | | **DLR 6.5: NRCs established for all Refugee Hosting Communities for years ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023 and July 7, 2024.**<br><br>NRC establishment is defined as: (a) founding documents and current membership defined and (b) trained in the guidelines. NRCs shall include gender-balanced representatives (at least 40% of each gender) of host community, refugees, and woreda as well as the local ARRA officer.<br><br>Refugee-hosting communities are defined as woredas with a registered number of refugees higher than (a) 300 refugees or (b) 100 refugees encompassing more than 20 percent of the woreda population) at the beginning of the project year. | Yes | ARRA | | 6b Year 2-6: Verification via (i) assessment of the founding documents, (ii) membership list with names and positions, and (iii) visual evidence of trainings (at least 5 pictures) incl. participants lists by the end of the project year. |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| 6c | | **DLR 6.6: Proof of community [consultations] led by ARRA in Refugee Hosting Communities by July 7, 2020.** | Yes | ARRA | | 6c Year 2: Verification via (i) minutes of meetings to discuss potential community interventions, (ii) visual evidence (at least 5 pictures) and (iii) participants lists. |
| | | **DLR 6.7: Community intervention implemented annually by July 7, 2021, July 7, 2022, July 7, 2023, July 7, 2024**<br><br>Community interventions: Envelope calculation based on number of registered refugees per woreda at the beginning of the project year multiplied by AM in refugee-hosting communities; application of ARRA E&S management systems with no significant E&S impact. Community interventions will be implemented upon NRC request and woreda approval by ARRA (procurement and supervision). | Yes | ARRA | | 6c Year 3-6: Verification via (i) ARRA disclosure of refugee numbers per woreda, (ii) minutes of meetings of respective NRC incl. decision on requested intervention, (iii) copy of request letter towards ARRA, (iv) ARRA procurement contracting document |
| 6d | | **DLR 6.3: Environmental and social (E&S) System developed by ARRA, EIC, IPDC and MoLSA, by July 7, 2019.** | No | ARRA, EIC, IPDC and MoLSA | | Verification: (i) internal E&S guideline documents of each institution materially consistent with UIIDP guidelines and the GoE regulations; (ii) minutes of meeting of decision meeting or directive on adoption of new or updated guidelines by senior management. Verification via (i) copies of presentations, (ii) visual |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | **DLR 6.8: IPDC E&S trainings completed by July 7, 2020** | No | IPDC | | evidence (at least 5 pictures) and (iii) participants lists. |
| | | **DLR 6.9: E&S audits on project activities conducted (including involved industrial parks) with a specific corrective action plan by July 7, 2021** | No | EIC, IPDC | | Verification via (i) the copies of audit reports based on the responsible institution's E&S system including corrective actions if necessary and (ii) minutes of meetings on the report presentation to senior management. |
| | | **DLR 6.10: Adaptation and adoption of EPP pilot lessons learned document by ARRA and EIC including a respective action plan by July 7, 2022** | No | ARRA/EIC | | Verification via (i) copy of overall lessons-learned report, (ii) specific Action Plan for each institution, and (iii) minutes of decision meeting or directive on implementing the corrective actions by the respective institutions. |
| | | **DLR 6.11: Audit of the E&S System and implementation of corrective actions addressing audit results. by July 7, 2023** | No | EIC, IPDC | | 6d Year 5: Verification via site visits documented in (i) a corrective action compliance table and (ii) visual evidence (at least 3 pictures) for each corrective action. |
| | | **DLR 6.12: Refresher for IPDC on management of E&S system by July 7, 2024.** | No | IPDC | | Verification via (i) copies of presentations, (ii) visual evidence (at least 5 |

| # | DLI | Definition/Description of Achievement | Scalability of Disbursements (Yes/No) | Protocol to Evaluate Achievement of the DLI and Data/Result Verification | | |
|---|---|---|---|---|---|---|
| | | | | Data Source/Agency | Verification Entity | Procedure |
| | | | | | | pictures) and (iii) participants lists |

**Table 3.3. World Bank Disbursement Table**

| # | DLI | World Bank Financing Allocated to the DLI | Of which Financing Available for Prior Results | Deadline for DLI Achievement[1] (indicative) | Minimum DLI value to be Achieved to Trigger Disbursements of World Bank Financing | Maximum DLI Value(s) Expected to be Achieved for World Bank Disbursements Purposes | Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) |
|---|---|---|---|---|---|---|---|
| 1 | **DLI 1: Number of refugees with access to economic opportunities** | 116.12 | 30 | DLR 1.1: Effectiveness | n.a. | YR 0: Proclamation on refugees promulgated | DLR 1.1: Not scalable, US$30,000,00 of financing allocated to DLI 1. |
| | | | | DLR 1.2: EFY ending July 7, 2020 | Economic Opportunities: 2,500 | YR 2:6,000 economic opportunities multiplied by scalable unit value | DLR 1.2: Scalable unit value of US$2,871 per economic opportunity issued to refugees. Financing amount estimated by the yearly unit value of each economic opportunity multiplied by the number of economic opportunities issued up to the DLR allocation. |
| | | | | DLR 1.3: Closing date | n.a. | YR 3–6: 24,000 economic opportunities multiplied by scalable unit value | DLR 1.3: Scalable unit value of US$2,871 per economic opportunity issued to refugees. Financing amount estimated by the yearly unit value of each economic opportunity multiplied by the number of economic opportunities issued up to the DLR allocation. |
| **2** | **DLI 2: Number of targeted investment facilitations by EIC increased** | 52.5 | 10 | DLR 2.1: Effectiveness | n.a. | YR 0: NBE Directives amended to permit establishment of foreign exchange accounts and to permit higher debt-equity ratio for foreign investors | DLR 2.1: Not scalable, valued at US$15,000,000 of financing allocated to DLI 2. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | DLR 2.2: Closing date | n.a. | YR 1–6: Targeted investment facilitations up to 1750 multiplied by scalable unit value | DLI 2.2: Scalable unit value of US$26,666 per targeted investment facilitation multiplied by the total number of investments facilitated up to the DLI allocation. |
| 3 | **DLI 3: Disclosure of Better Work synthesis compliance reports and MoLSA synthesis inspection reports done in collaboration with Better Work** | 25 | 15 | DLR 3.1: Effectiveness | n.a. | YR 0: One labor unit established in each of Bole Lemi I, Hawassa, Mekelle, Kombolcha Industrial Parks multiplied by scalable unit value | DLR 3.1: Scalable unit value of US$3,750,0000 per labor unit established up to a maximum of US$15,000,000. |
| | | | | DLR 3.2: Better Work synthesis compliance report done by end of EFY starting from YR2. | n.a. | YR 2–6: Annual disclosure of Better Work synthesis compliance report | DLR 3.2: Not scalable. Unit value of US$1,500,000 will be disbursed for each annual disclosure up to a maximum of US$7,500,000 |
| | | | | DLR 3.3: MoLSA inspection report done | n.a. | YR 4–5: For EFY ending July 7, 2022, to be submitted by December 31, 2022, and for EFY ending July 7, 2023, to be submitted by December 31, 2023 | DLR 3.3: Not scalable. Unit value of US$1,250,000 will be disbursed for each completed report up to a maximum of US$3,000,000 |
| 4 | DLI 4: Ethiopian Investment Board decision made on feasibility study of private sector-led participation in Bole Lemi I, Hawassa, Mekelle, or Kombolcha Industrial Park | 30 | Na. | DLR 4.1: Closing Date | n.a. | YR 1–6: 5 decisions made by Investment Board based on detailed feasibility studies | DLR 4.1: Scalable unit value of US$6,000,000 for each justified decision made by Investment Board multiplied by the number of decisions up to the DLI allocation of US$30,000,000 |
| 5 | DLI 5: (a) Procurement Directives and Manuals issued and used by IPDC and ARRA based on a legal framework issued by the | 10 | Na. | DLR 5.1: July 7, 2019, and July 7, 2020. | n.a. | YR 1–2: Directives and manuals issued and used by IPDC and ARRA for years ending July 7, 2019, and July 7, 2020, | DLR 5.1: Not scalable. US$1,500,000 for procurement directives and manuals issued and used by IPDC and ARRA based on a legal framework issued by Federal Government at the end of each EFY up to a maximum of US$3,000,000. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Federal Government | | | | | | |
| | (b) IPDC unqualified/clean entity financial audit report issued, based on IFRS-compliant financial statements, and submitted on time | | | DLR 5.2: IPDC audit reports are submitted respectively by January 7, 2021, January 7, 2022, January 7, 2023, and January 7, 2024 | n.a. | YR3–6: IPDC audit report for EFY ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023, are submitted respectively by January 7, 2021, January 7, 2022, January 7, 2023, and January 7, 2024. | DLR 5.2: Not scalable. US$1,750,000 for each unqualified or clean entity financial audit report of the IPDC is submitted on time by deadline up to a maximum of US$7,000,000. |
| 6 | DLI 6: An established environmental and social risk management system that addresses respective risks | 30 | Na. | DLR 6.1: July 7, 2019 | n.a. | ARRA, EIC, IPDC, and MoLSA, each have sufficient and qualified staff to develop and implement the E&S System | DLR 6.1: Not scalable. 3 percent of DLI allocation on achievement. |
| | | | | DLR 6.2: July 7, 2019 | n.a. | Functional refugee tracking system established | DLR 6.2: Not scalable. 3 percent of DLI allocation on achievement. |
| | | | | DLR 6.3: July 7, 2019 | n.a. | E&S system developed by ARRA, EIC, IPDC, and MoLSA | DLR 6.3: Not scalable. 4 percent of DLI allocation on achievement. |
| | | | | DLR 6.4: EFYs ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023, and July 7, 2024 | n.a. | ARRA local facilitation and support branches are established and functional for five years for EFY ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023 and July 7, 2024 for all refugee hosting communities | DLR 6.4: Scalable. 6.8 percent of DLI allocation multiplied by percent of achievement.[14] |

[14] For scalable activities percent of achievement is calculated as full achievement in number of refugee hosting communities divided by total number of refugee hosting communities.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | DLR 6.5: EFYs ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023, and July 7, 2024 | n.a. | NRCs established for all refugee hosting communities for EFYs ending July 7, 2020, July 7, 2021, July 7, 2022, July 7, 2023, and July 7, 2024. | DLR 6.5: Scalable. 2 percent of DLI allocation multiplied by percent of achievement |
| | | | | DLR 6.6: July 7, 2020 | n.a. | Proof of community [consultations] led by ARRA in refugee hosting communities | DLR 6.6: Scalable. 5.6 percent of DLI allocation multiplied by percent of achievement. |
| | | | | DLR 6.7: EFY ending July 7, 2021, July 7, 2022, July 7, 2023, July 7, 2024 | n.a. | Community [intervention] implemented annually for EFY ending July 7, 2021, July 7, 2022, July 7, 2023, July 7, 2024 | DLR 6.7: Scalable. 5.6 percent of DLI allocation multiplied by percent of achievement. |
| | | | | DLR 6.8: July 7, 2020 | n.a. | Training of IPDC on management of E&S system in operation | DLR 6.8: Not scalable. 5 percent of DLI allocation on achievement. |
| | | | | DLR 6.9: July 7, 2021 | n.a. | E&S audit on project activities conducted (including involved industrial parks) with a specific corrective action plan | DLR 6.9: Not scalable. 5 percent of DLI allocation on achievement |
| | | | | DLR 6.10: July 7, 2022 | n.a. | Adaptation and adoption of pilot lessons learned document by ARRA and the EIC, including a respective action plan | DLR 6.10: Not scalable. 5 percent of DLI allocation on achievement |
| | | | | DLR 6.11: July 7, 2023 | n.a. | Audit of the E&S system and implementation of corrective actions addressing audit results. | DLR 6.11: Not scalable. 5 percent of DLI allocation on achievement |
| | | | | DLR 6.12: July 7, 2024 | n.a. | Refresher IPDC on management of E&S system in operation activities | DLR 6.12: Not scalable. 1 percent of DLI allocation on achievement |

## Annex 4: Summary Technical Assessment

## Ethiopia Economic Opportunities Program (P163829)

*Strategic Relevance: How will programs supported by the PforR operation be situated in a strategic context in the country?*

1. The Economic Opportunities Program will support the Government's commitment toward the CRRF goals of supporting self-reliance of refugees, allowing refugees to become more independent and expanding their rights and freedoms to contribute more fully to Ethiopia's economy. The Government's program leverages its industrialization strategy to create these economic opportunities. It targets results and reforms that link to the GTP II's strategic focus on equitable economic growth through job creation, poverty reduction, and improvements in productivity and competitiveness in the manufacturing industries. The results areas of the Program support the strategic context of the Government's plans under the CRRF and GTP II in the following ways:

(a) **Refugee-related Employment and Protection.** This results area contributes to the Government's commitment toward the CRRF goals of developing measures to ease pressure on countries that host refugees, including measures that increase refugee self-reliance and inclusion through opportunities such as education and legal work. The Economic Opportunities Program fits within the overall commitment as operationalized through the nine pledges, which are in line with the objectives pursued by the international community through the CRRF. Refugees are recognized as contributors to economic and social development, which is a crucial element of the CPF and the GTP II.

(b) **Improving the Broader Investment Climate.** GTP II is designed with the main goal of sustaining the economic growth registered during GTP I through structural economic transformation that results in formation of a globally competitive industrial base. Improving the overall investment climate, as well as engaging in investment promotion activities will contribute toward achieving the Government's GTP II targets and its ambition to become the light manufacturing hub of Africa.

(c) **Improving Labor Productivity and Quality of Jobs.** GTP II envisions Ethiopia as a low middle-income country by 2025 by increasing the contribution of manufacturing to overall GDP from the current level of 5 percent to 18–20 percent and ensuring that the manufacturing sector contributes 50 percent of exports by 2025. In line with achieving these objectives, the GTP targets improvements in productivity and competitiveness in the manufacturing industries. The Program will support the Government to address the existing labor productivity challenges because of multiple factors, including skills, housing, workers' turnover, attitude, mobility, and so on.

(d) **Enhancing the Sustainability of Existing Industrial Parks.** Underpinning the Government's industrialization strategy is a focus on development of serviced industrial infrastructure such as industrial parks which are expected to attract FDI. In parallel, these developments need to consider potential E&S impacts and adequate mitigation measures need to be put in place. The Program will provide support to the Government to develop a sustainable industrial parks program that ensures social, environmental, and financial sustainability of its investments.

*Technical Soundness: Is the program designed and implemented to efficiently produce results and achieve the program's objectives?*

2. The overall theory of change highlights the links between the Program interventions, outputs, and outcomes (also including results). The results areas identified are designed to create economic opportunities for Ethiopians and refugees in an environmentally and socially sustainable way, including addressing the constraints that limit access to the economic opportunities. The priority constraints being addressed to provide economic opportunities include both supply- and demand-side issues such as access to the labor market, protection of workers, poor investment climate, low labor productivity, E&S compliance measures, and the overall sustainability of Ethiopia's industrial parks. The PforR will contribute to create an ecosystem that would increase Ethiopia's attractiveness for foreign investment that will in turn create jobs and make optimal use of the skills within the local and refugee population.

3. The Economic Opportunities Program design has been informed by technical analysis conducted for each of the results areas. A summary of the challenges and issues identified through the analysis are summarized in table 4.1.

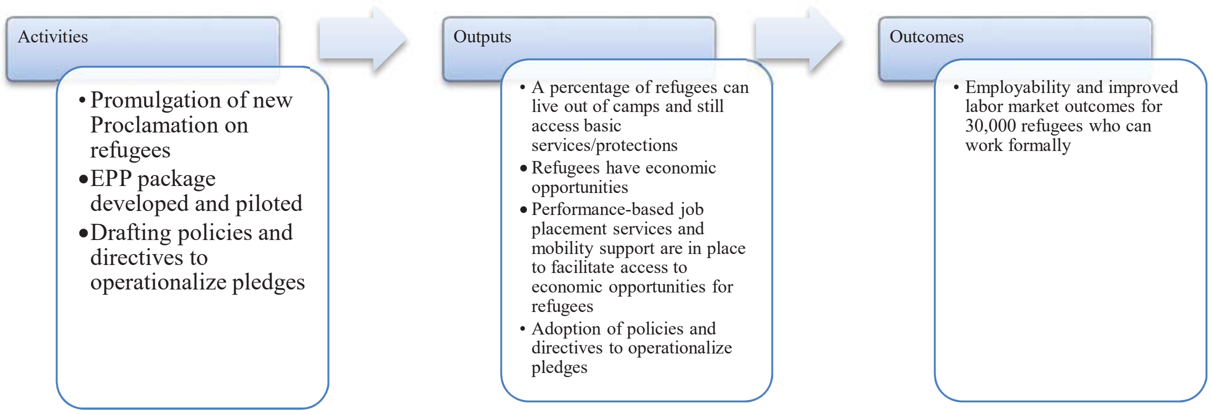
**Table 4.1. Summary of Key Issues/Challenges Identified Through the Technical Assessments Under Each Result Area of the Economic Opportunities Program**

| Refugee-related Employment and Protection | Improving the Broader Investment Climate | Improving Labor Productivity and Quality of Jobs | Enhancing the Sustainability of Existing Industrial Parks |
|---|---|---|---|
| • Complexity in managing the movement of vulnerable communities who may need to relocate to access opportunities.<br>• Distinctive demographics/dynamics among the different/main refugee groups (South Sudanese, Sudanese, Eritrean, and Somali refugees) such as language, education level, gender and age distribution, social relationships, livelihood/business activities, cultural, and predominant attitudinal traits; all of which potentially have implications for Program design<br>• The constraints to accessing economic opportunities (wage jobs in and outside the industrial parks, as well as formal entrepreneurship/own account are diverse and | • Major constraints for investment and business are (a) trade logistics; (b) access to finance (including foreign exchange); (c) tax rates, regulation, and administration; (d) quality infrastructure (electricity, water, telecommunications, transport, and so on); (e) labor (skill and regulation); and (f) public service delivery<br>• Major constraints for investment promotion and export promotion include lack of clarity on the overall investment promotion strategy (comprising a structured, systematic, and targeted approach); lack of a coordinated outreach campaign involving planning, lead generation, campaign execution, and follow-up activities; and human | • Low labor productivity (including high turnover for example, 7–8% per month in the garment sector, resulting in 100 percent turnover annually) significantly impacts competitiveness, growth, and attractiveness of Ethiopia for investment<br>• Low wages. The current wages in the manufacturing sector are range from ETB 650–ETB 1,500 or US$25–US$55 per month.<br>• The underlying factors with workforce retention are complex and include, among others, (a) outdated provisions within labor regulations (labor code), (b) lack of skills, especially soft skills, both among worker and supervisors, (c) poor human resource practices (recruiting and promotion), (d) poor working conditions, | • Emerging risks and challenges on E&S conditions that will affect Ethiopia's brand as a quality investment destination that may affect attraction of quality investments<br>• Need for social infrastructure such as appropriate housing, social services, decent working conditions, and grievances systems<br>• Need to set up compliance standards, sufficient waste management, and regulatory systems |

| Refugee-related Employment and Protection | Improving the Broader Investment Climate | Improving Labor Productivity and Quality of Jobs | Enhancing the Sustainability of Existing Industrial Parks |
|---|---|---|---|
| include (a) lack of skills (basic literacy/numeracy, technical, soft skills, and business skills); (b) lack of information on job opportunities and social networks; (c) mobility constraints (transport/housing costs) and job search costs; (d) inadequate capacity of publicly/widely available job matching services; and (e) constraints specific to entrepreneurship, such as lack of capital. Refugees are expected to face additional or more severe constraints such as lower skills levels, language barriers, potentially higher reservation wages, and mobility or psychological barriers.<br>• Legal and institutional framework to operationalize the nine pledges are in the early stages of development and there is an overall lack of clarity | resource capacity challenges | including uneven compliance with labor regulations and social/environmental standards, (e) lack of affordable and good quality housing in the vicinity of factories/industrial parks and related transport costs, and (f) firm-level production processes. | |

4. **Refugee-related Employment and Protection.** The Program activities address the main hurdles, which currently limit the ability of refugees to access economic opportunities, including the existing legal/regulatory framework. DLI 1 will focus on setting up the legal framework to operationalize the Government's commitment under the CRRF, including for providing formalized economic opportunities for 30,000 refugees. Given the complexity of the refugee situation, a key finding of the technical assessment is the need to include a Program intervention focused on employment matching (EPP). This comprehensive package of services and financial assistance will help connect refugees to economic opportunities (further discussion in annex 1b) and address the numerous constraints which are likely to be faced by refugees. Figure 4.1 presents the theory of change for the refugee-related employment and protection results area.

**Figure 4.1. Theory of Change for Refugee-related Employment and Protection Results Area**




5. Though the Government has committed to the nine pledges under the CRRF, the legal and institutional frameworks to operationalize the pledges are in the early stages of development. This has led to an overall lack of clarity on several areas, including institutional coordination, precise roles and responsibilities, and resources. The implication of this is that there could be a twin-track process, which would result in this Program and the broader CRRF commitments moving at different speeds. Though the Program is well defined outside of the CRRF process, and can proceed independently, IDA18 funding requires refugee protections to remain in place as out-of-camp policies evolve. Though Ethiopia has demonstrated a comprehensive strategy and set of actions designed to benefit refugees, monitoring the impact of new policies on refugee protection will be a substantial task, with associated risks. Risks could be heightened if the CRRF process falls behind, delaying refugees' access to services and protections when they leave camps.

6. Refugees in Ethiopia are largely grouped into distinct ethnic groups in areas of the country that share common kinship ties, language, culture, and traditions. Their levels of education and formal work experience vary from almost totally absent to tertiary education with skills and experience of formal employment. This range of levels is also the case in host communities, which, in some cases, are located in some of the poorest and most fragile areas of Ethiopia. All these factors are likely to affect which refugees are both willing and able to enter the formal labor market in Ethiopia. It will also affect tensions between refugees and Ethiopians vying for opportunities. Box 4.1 presents some data on refugees, from the World Bank's recently completed skills profiling/survey.

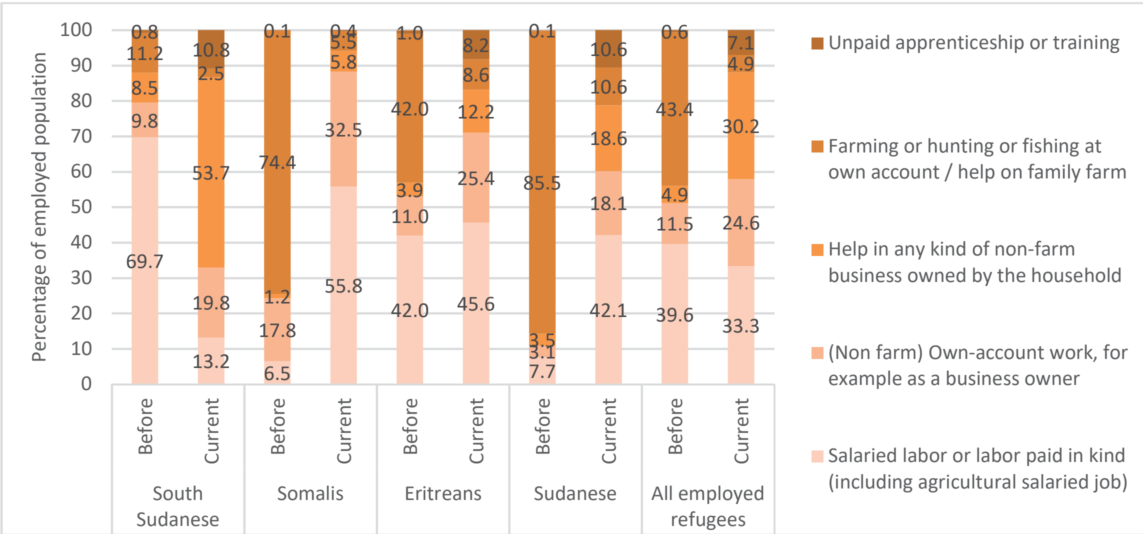
**Box 4.1. Refugee Labor Market Integration**

Based on data completed from the World Bank's refugee skills survey, currently 28.5 percent of refugees hosted in Ethiopia are in the labor force; 78.7 percent of these refugees are employed, while 22.3 percent are unemployed. Only 40 percent of refugees are of working age and have the potential to participate in the labor force. High levels of children and female-headed households raise particular constraints to entrance into the labor force in its current form—especially given the lack of available housing and refugee-focused services in the proximity of industrial parks. Nearly 59 percent of refugees are children under the age of 15, with dependency ratios [a] ranging from 1.2 for Eritreans to 2.1 for South Sudanese. Additionally, 91.5 percent of South Sudanese households are headed by a woman compared to 39 percent of Somali households. Unsurprisingly, mobility is a key consideration for young women (ages 18 to 30) with children; their willingness to move to a factory job would be increased significantly by the provision of childcare (about 26.6 percentage points according to the refugee skills profile).

Among those refugees who are employed, almost two-thirds have more than one year of experience in their current work activity. This is particularly high among Somali and Sudanese refugees, who also report being most available to take up work if they are unemployed, compared to other refugee groups. Yet, Somali and Sudanese refugees are also the most likely to have been predominantly engaged in farming before displacement (74.4 and

86.5 percent, respectively). Most refugees express a desire to return to the activity they had before displacement, upon return to their countries of origin, especially the South Sudanese (88.9 percent), Sudanese (71 percent), and Somalis (65 percent). The details are provided in figure 4.2.

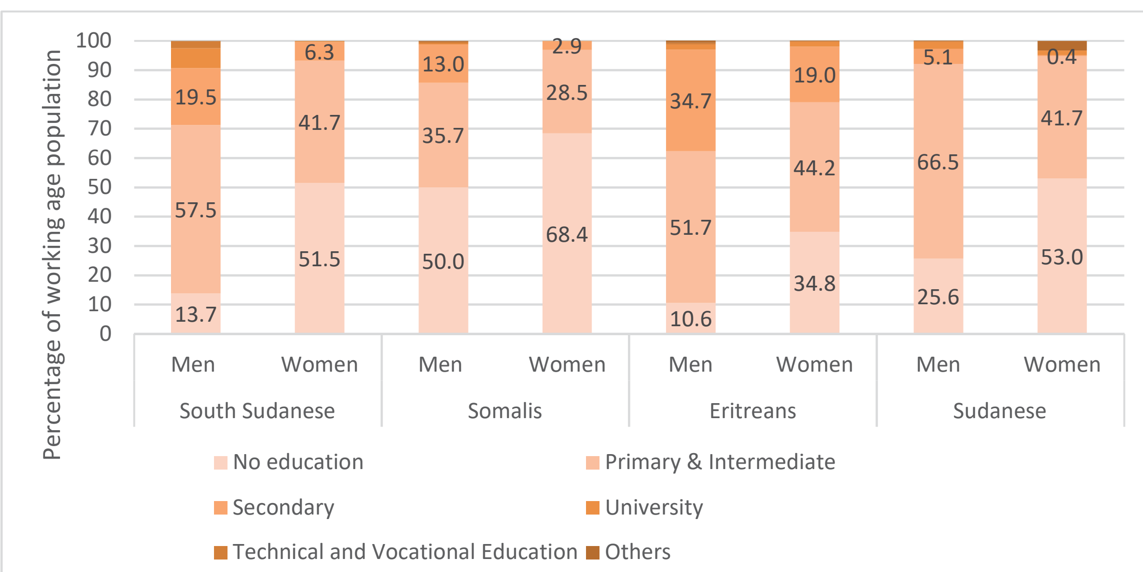
**Figure 4.2. Main Employment Activity of Refugees Before and After Displacement**




*Source*: Ethiopia Survey on Skills Profile of Refugees and Host Communities.

Overall the educational attainment of refugees is very low: 41 percent of working-age refugees have no education, 42 percent have primary and intermediate education, and only 17 percent of refugees have secondary education and above.[b] But, there are large disparities between genders, with women in general being significantly less educated. Nearly 54 percent of women refugees have no education at all, compared to 26 percent among men. Only 9 percent of women have secondary education or above compared to 26 percent among men. There are also high levels of disparity between ethnic groups. An overwhelming majority of Somali refugees have no education (50 percent among men and 68.4 percent among women) compared to Eritrean refugees many of whom have secondary education (34.7 percent among men and 19 percent among women). Figure 4.3 details education achievement by ethnic group among refugees.

**Figure 4.3. Highest Level of Education Attained by Ethnic Group**




*Source*: Ethiopia Survey on Skills Profile of Refugees and Host Communities.

| |
|---|
| Refugees' constraints to accessing economic opportunities (wage jobs in and outside the industrial parks, as well as formal entrepreneurship/own account) are therefore diverse and include (a) lack of skills (basic literacy/numeracy, technical, soft skills, business skills); (b) lack of information on job opportunities and social networks; (c) mobility constraints (transport/housing/childcare costs) and job search costs; (d) inadequate capacity of publicly/widely available job matching services; and (e) constraints specific to entrepreneurship, such as lack of access to finance and land. There are also likely to be cultural barriers preventing women and men (in different ways) from seeking certain types of employment because of taboos in their communities that can also expose them to risk, even violence, if these taboos are broken. Additionally, accessing knowledge on labor rights and protections, potential employment, and legal support for possible grievances incurred are all likely to be difficult for refugees, especially for women and young adults who may have limited voice and autonomy in their communities. |
| Taking these constraints on board and considering that the ideal demographic profile for work in industrial parks is young, childless women between 18-25, the survey found that of 18,697 refugee women that fit the profile, less than half have the requisite educational requirements required by the industrial parks (6,948). Additionally, of those with the required educational background only 3,634 would consider a job earning 750 Birr in an industrial park. |
| *Note:* a. Average number of children younger than 15 per household member of working age. |
| b. Above secondary includes university, technical and vocational education, and other, but in total they represent a very small percentage: 5 percent of the total for men and less than 1 percent for women. |

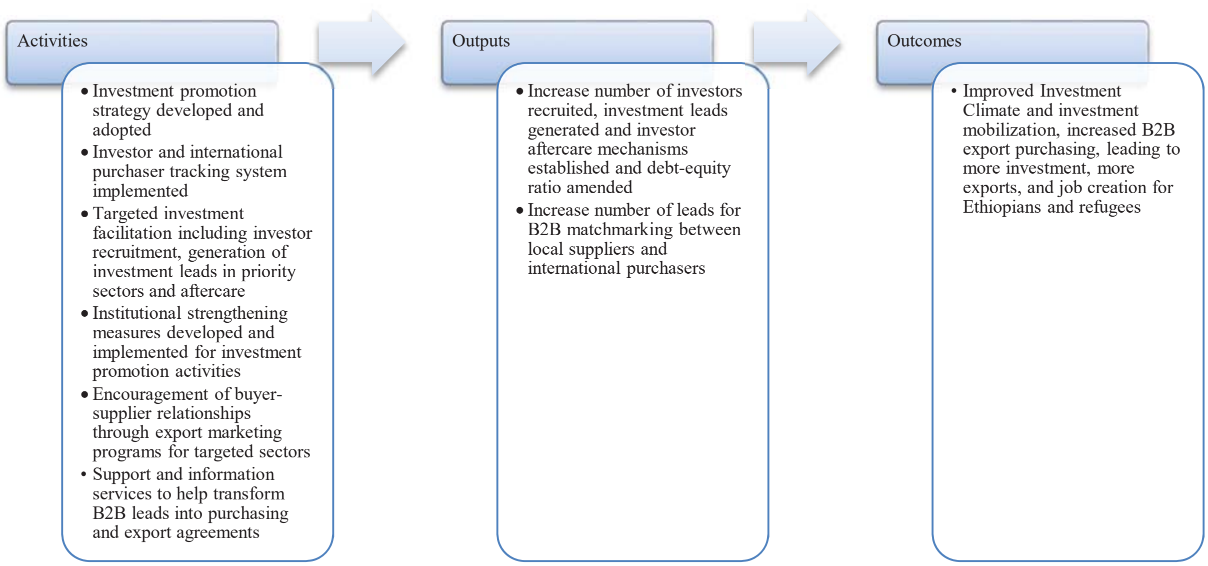
7. **Improving the broader investment climate.** The investment climate assessment identified the key issues that are actionable and critical to reaching the PforR objectives. Several investment constraints were assessed ranging from trade logistics and customs, trade policy, and market constraints. In addition, factors limiting investment promotion were also assessed. The findings indicate that despite the advancements made through the Ethiopian Public-Private Consultative Forum, the culture of closely engaging the private sector in business policy making and regulatory enactment is still nascent. Advocacy is not yet widely allowed and enactment and revision of laws are made without proper regulatory impact assessment. Businesses consider poor regulatory quality transparency and participation as an important constraining factor. More so, poor institutional coordination and information sharing is indeed an investment climate constraint prevalent both horizontally (among federal agencies) and vertically (between federal and regional agencies). Businesses consider the degree of coordination and joint service delivery between the various federal agencies to be very low. Different government agencies operate with different (perceived and/or actual) mandate; some are more regulatory and controlling in approach, while others are more facilitative. Joint and targeted efforts will help reduce legal and administrative barriers to foreign investment, strengthen the legal and regulatory framework for foreign investor protection and transparency, and help attract additional FDI and encourage more B2B relationships between local suppliers and international buyers in key competitive sectors (such as agri processing, food and beverages, tourism, and leather/garments or other light manufacturing industries).

8. **While ensuring that the PforR activities are aligned with the CPF, the technical assessment has identified critical areas that complement ongoing programs to strengthen the overall investment climate, including investment promotion.** The second results area under the Program and its associated DLI 2 will focus on addressing the major gaps noted earlier and will pursue results that drive reforms based on consultations with the private sector (public-private dialogue), including systematic and strategic investment facilitation activities such as investors outreach, investor recruitment, investment generation, and aftercare. The Program support will leverage and complement the ongoing activities of the MDTF Investment Climate program managed by the World Bank Group. Figure 4.4 presents the theory of change for the investment climate/investment promotion results area.

9. **The Program's support for industrial parks will also indirectly support investment climate and investment promotion**. Industrial parks are seen by the Government and some analysts as an important way of overcoming some of the constraints to the overall climate and creating OSSs that will generate

foreign currency and export and fast-track government bureaucracy. The idea is that industrial parks create an example that can be replicated in the wider environment.

**Figure 4.4. Theory of Change for Investment Climate/Investment Promotion Results Area**



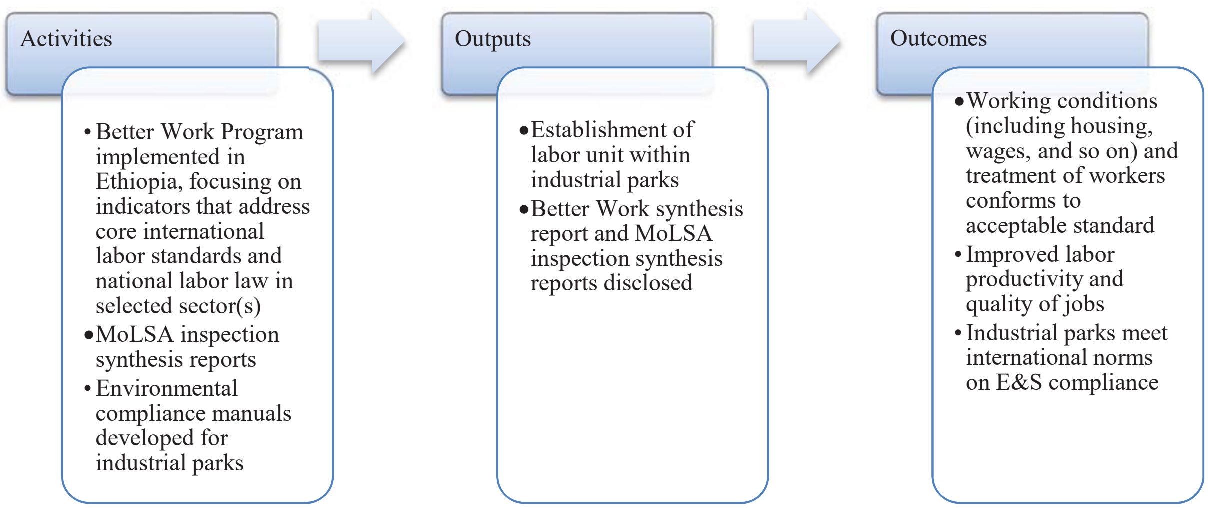

10. **Improving labor productivity and quality of jobs.** Improving labor productivity is a priority area that would benefit various key stakeholders, including the Government, investors, labor force, and other development partners. Given that a large proportion of those recruited to work in factories are young, unmarried women, it also has the potential to contribute to women's empowerment in Ethiopia. As detailed under 'strategic relevance', labor productivity and retention is a major constraint to business growth in Ethiopia, as its workforce transitions from largely agrarian-based to an industrialized economy. Factors underlying workforce retention are complex and include (a) outdated provisions within the labor regulations (labor code), (b) lack of skills, especially soft skills, both among worker and supervisors, (c) poor human resource practices (recruiting and promotion), (d) poor working conditions, including uneven compliance with labor regulations and social/environmental standards, (e) lack of affordable and good quality housing in the vicinity of factories/industrial parks and related transport costs, and (f) firm-level production processes.

11. Labor productivity is an important cross-cutting element of the Economic Opportunities Program as it contributes to the competitiveness and growth of firms, and thereby, has downstream consequences for creating and sustaining jobs in the economy. Compliance with labor regulations and improving worker retention is a critical concern especially in the context of the manufacturing sector. There is significant need and room to improve labor productivity particularly for large firms which could also lead to increases in wages (given the positive correlation between the two) for a large share of workers employed by these firms,[15] which are mostly located within industrial parks.

[15] This could also imply some reduction in excess labor in case for instance improvements in labor productivity are made through deploying more labor saving technologies or production processes.

12. The Program aims to support the Government to tackle these complex challenges through DLI 3 that encourages adoption of international best practices, such as encouraging the adoption of the Better Work Program and MoLSA synthesis inspection reports, that includes interventions across the various challenges noted earlier at the factory and sector levels. The prior result under this DLI (establishment of labor unit within industrial parks) will ensure employers have worker complaint mechanisms in the workplace such as labor dispute resolution mechanisms. Figure 4.5 presents the theory of change for the labor productivity results area.

**Figure 4.5. Theory of Change for the Labor Productivity Results Area**




13. **Enhancing the sustainability of existing industrial parks.** The assessment in this area noted that the Government's legal framework for its industrial park program incorporates best practice elements around the area of environmental sustainability which includes mandating Federal and regional environmental legislations be applied within the industrial parks and establishing an office in the industrial parks to enforce environmental legislation. In support of the proclamation, the recently passed industrial park regulations further elaborate key measures to help safeguard environmental sustainability.

14. However, the operationalization of these principles has not been in tandem with the fast development of the industrial parks. One of the emerging social issues faced by the industrial parks is the limited worker accommodation and the associated lack of support infrastructure (such as water, sanitation, and so on) which is regularly cited as one of the main constraints of workforce recruitment and retention. Demand for accommodation is high. There are several risks associated with the housing situation such as the following: (a) the units not adhering to any specific building codes, (b) workers being exposed to significant rental rate increases, (c) the living conditions of workers being unknown and unchecked, (d) uncertainty of appropriate level of health and safety provisions being in place, and (e) uncertainty of sufficient security provisions being in place. The Government is currently making efforts to rectify the housing situation through the use of an equity financing partnership model between the private sector and Government. IPDC has recently set up a housing unit that is working on housing-related challenges for the industrial parks. In Hawassa, IPDC is piloting a special purpose vehicle, which is being financed through concessional debt and equity from investors that will cover financing, ownership, and management of worker dormitories. If successful, the aim is to scale up this pilot special purpose vehicle to other parks as they become operational.

15. A lack of integrated planning with the surrounding community will put a strain on the already stretched/scarce infrastructure and resources. The provision of other services such as water, waste water,

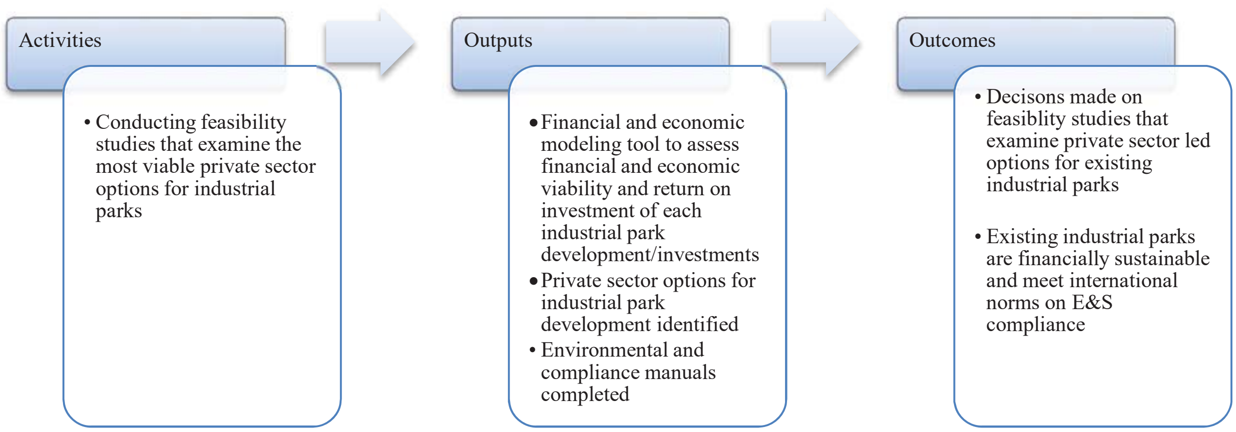
solid waste, and electricity is expected to continue being a problem, although in Mekelle the situation is expected to improve in the coming years with the commissioning of the Gareb Segel dam. In addition, there is need for the consolidation and easy accessibility of health and safety guidelines, as well as enforcement and compliance mechanisms as there is currently very limited/zero inspection to ensure health and safety guidelines are adhered to by tenants. The site survey for Hawassa shows that production processes are generating waste, which have a negative impact not only on the company but also on the environment. This opens opportunities to implement cleaner production and pollution prevention which will significantly reduce waste streams and production cost and increase competitiveness using environmentally sound methods.

16. While some initial progress has been made and some steps are still under way; to foster sustainability in the industrial parks, there is significantly more that needs to be done. A more systemic approach to environmental sustainability that includes a best practice policy/regulatory framework, underpinned by rigorous diagnostics and a cost-benefit analysis is required. This needs to be supported by implementation and capacity-building support to both public and private sector stakeholders involved in industrial park management and administration, as well as industrial park investors, around the areas of cleaner production, water efficiency, energy efficiency, and solid waste management (industrial and non-industrial). These efforts will require long-term strategic planning with the aim of mainstreaming sustainable industrial park development and management.

17. The assessment identifies several crucial activities for the industrial parks based on key social, environmental, financial, and operational factors; recognizing the key drivers of change based on the underlying causalities. The assessment recognized that several of the challenges in the industrial parks are complex and interlinked, for instance, quality worker accommodation could affect (a) labor productivity; (b) safeguarding of workers; (c) attracting quality investments; and (d) positive public relations, branding, and attracting ethical consumers.

18. The Program will focus on addressing the key cross-cutting challenges around the industrial parks program by leveraging DLI 3 on 'Disclosure of Better Work' report, that jointly is expected to address the labor productivity issue by addressing working conditions and labor regulations, as well as ensure workers' welfare, in the existing industrial parks. In addition, DLI 4 and its associated PAP item will focus on results that ensure financial sustainability by bringing in a strategic approach to private participation in industrial development and management and introducing environmental compliance standards that minimize negative impacts. Private sector participation for operating the parks will not only enhance financial sustainability, but may also explore options to address some of the challenges linked to housing, services, and environmental sustainability in the existing industrial parks. Figure 4.6 presents the theory of change for the Improving Industrial Park Sustainability results area. Some of the activities and outputs related to the labor productivity results area are cross-cutting and overlap with industrial park sustainability.

**Figure 4.6. Theory of Change for Improving Industrial Park Sustainability Results Area**




*Institutional Assessment: Are the necessary entities involved, are roles and responsibilities clearly defined, are incentives adequate to ensure collaboration?*

19. The EIC will have the responsibility to coordinate and manage the PforR and the Government's broader Economic Opportunities Program. A PCU has been set up for this purpose, which will also ensure coordination among the key entities involved in the program areas (ARRA, IPDC, and MoLSA). At a higher level, the Economic Opportunities Program will be part of the CRRF and will be coordinated under one of the technical subcommittees under the CRRF Coordination Steering Committee.

20. **Government institutions in Ethiopia have strengths and weaknesses.** The Government system is extensive and reaches from federal to community levels, right across the country. This includes the less-developed regions where a large proportion of refugee communities are hosted. However, skills and capacities are variable and there is a tendency to implement 'top down' policies rather than adapting to local conditions and needs. Systems for data collection are in place and regularly used (for instance in the humanitarian sector), but independently verifying data is also recommended to ensure accuracy. Horizontal coordination—across ministries and agencies—is currently poor, with few incentives in place to ensure that sectors operate in complement.

21. All the government institutions responsible for delivering and coordinating over the Program are represented at the federal and local levels, through bureaus and agencies. Yet, capacities are often very limited. In addition, the Government, through these local chapters, has reflected a tendency to advocate employment through the public sector, rather than, for instance, promoting the growth of the domestic private sector. Alongside technical skills development, there will also need to be a shift in mindset, if private entrepreneurship and local business setup are to be encouraged and supported.

22. Outside this Program there continues to be considerable investment from the international community in Ethiopia's social service sector and in its ongoing humanitarian needs. When it comes to the provision of services like health and education for both Ethiopians who have migrated to find work and refugees benefiting from out-of-camp policies, government agencies involved in this Program will need to coordinate with other sectors to ensure that municipalities can anticipate (as far as possible) any potential

strain on their service provision. It is not yet clear how this will take place through the existing coordination structures.

23. An institutional assessment of each entity involved in the Program (EIC, ARRA, IPDC, and MoLSA) was conducted, the key findings of which are summarized in table 4.2. The assessments highlight the need for a strong coordinating and implementation capacity in the EIC and ARRA. As a result, an IPF will be provided within the construct of this PforR to finance this capacity.

**Table 4.2. Summary of the Findings of the Institutional Assessment by Results Area**

| Results Area | Institutional Issues for Consideration |
|---|---|
| Refugee-related Employment and Protection | • As a department of the Ethiopian National Intelligence and Security Service, ARRA's mandate is mainly limited to the refugee camps (the host communities outside the camps are the jurisdictions of the regional states and/or the local authorities). ARRA's interactions with the local authorities is mainly limited to security issues and the coordination of the limited provisions of basic and social services (health, education, clean potable water, and environmental rehabilitation) to the host communities near the camps. Currently, ARRA has over 3,000 staff distributed across its central management office, about six zonal coordination offices, 28 camp offices, and one liaison office; with an assignment of about 70–80 staff in each of the 27 refugee camps. ARRA has four main departments for (a) Program implementation and coordination, (b) legal and protection, (c) finance and purchase department, and (d) human resources development and property administration.<br>• ARRA's vision for the next ten years is to ensure self-sufficiency for 900,000 refugees within three key policies: (a) out of camp, (b) local integration, and (c) diminished encampment.<br>• The Government's investment in economic opportunities for Ethiopians and refugees, under the CRRF, is a new and evolving program and institutional arrangements and roles/responsibilities are not entirely clarified. While ARRA has the mandate to cover refugees within camps, it is unclear if their mandate would necessarily cover services delivered out of camps, which would overlap, in some cases, with the existing ministries and agencies. It will be imperative that duplication is discouraged and coordination in sectors, like health, is as seamless as possible.<br>• The policies and directives related to the pledges are being drafted and will help with their operationalization, however, detailed procedures are not in place and it is not clear among the various entities involved who will have responsibility for delivery of each of the pledges. |
| Investment Climate and Investment facilitation | • The EIC is well-positioned to lead the investment promotion, export marketing, and investment climate reforms. However, the EIC still needs capacity building, effective coordination, and a more structured, systematic, and targeted approach. The EIC will require skilled and dedicated staff with a long-term orientation. Skills/knowledge, information/data, market knowledge, financial resource, procedures, and the necessary alliances are not available at a sufficient level. The poor regulatory quality, transparency, and participation is considered by businesses as a constraining factor. Also, the institutional coordination and information sharing, prevalent both horizontally and vertically, is a key issue. The EIC is the principal government entity responsible for promoting, coordinating, and facilitating investment in Ethiopia.<br>• The EIC is overseen by the EIB and is chaired by the Prime Minister and composed of government officials designated by the Prime Minister wherein the EIC serves as its secretariat. At the local levels, the respective regional investment agencies have been established to promote and handle provincial investments. In addition to the EIC, several other government agencies/institutions play key role in the investment climate. |
| Labor Productivity | • It is the mandate of MoLSA to cover issues related to labor and social affairs. While it would typically be MoLSA's mandate to ensure compliance with social standards in the industrial parks, the expectation from the EIC is that it will receive delegated authority from MoLSA to act on its behalf. Therefore, in addition to deciding on the specific standards to be implemented, as well as sufficiently planning for the appropriate reporting systems to be in |

| | |
|---|---|
| | place, the EIC needs to recruit, and if necessary train, enough qualified staff to operationalize the labor unit. Discussions are ongoing regarding the most appropriate course of action.<br>• As is common with such regulations and labor codes, the key challenge is enforcement. While the legal framework is clear that the national labor law applies in the industrial parks, little is currently being done to ensure compliance or proactively ensure that working conditions and treatment of workers in the industrial parks conform to an acceptable standard. It is currently down to the individual firms to adopt their own standards, which in many cases are likely to be driven by their buyers. To address this, the EIC is in the process of establishing a labor unit, which will be housed within each industrial park's OSS. The main purpose of the labor unit will be to systemize a mechanism of inspections to ensure that working conditions within each industrial park are of an internationally recognized standard. The EIC's current approach is to adopt ILO standards, but the specific details of the standards to be used and the planned mechanism of capture, monitoring, and reporting compliance is currently under consideration by the EIC's regulation department. The status of the planned labor unit and the progress being made to decide the details of the standards and systems to capture the information are also still unclear.<br>• MoLSA, through regional BoLSAs, currently provides PESs to Ethiopians, focusing on certain target groups, such as youth, women, and returnee labor migrants. The capacity of PES is quite limited even to deliver the basic employment services, such as job matching and job placement. Local PES centers in many areas are not adequately staffed and resourced. As a result, it is not expected that, at least in the short term, BoLSAs will have the capacity to expand service provision and tailor services to the needs of the refugees. The technical capacity building to select BoLSAs will be provided through the Program to enhance their capacity to better serve Ethiopian jobseekers. |
| Enhancing the sustainability of existing industrial parks | • IPDC and the EIC are the two designated managing entities of the industrial parks. The separation of IPDC (as developer/operator) from the EIC (as regulatory body) is in line with best practice because it reduces the likelihood of potential conflict of interest, with each entity having its own clear mandate. At the institutional level, IPDC is mandated to develop and manage the industrial parks and to this effect it has a management unit located in each of its industrial parks whose mandate is customer aftercare, facilities management, rent collection, and security. The overall management oversight and coordination takes place at the IPDC's head office in Addis and their mandate is to sign investor lease agreements, provide oversight of branch office operations, oversee industrial park infrastructure works, convene tenant meetings, and communicate with utility providers. The IPDC housing unit is expected to take on the responsibility of deciding and publishing all standards, along with ensuring compliance of all construction (the London-based ARUP standard is the targeted basis for all future industrial park construction). The EIC plays more of a regulatory role overseeing all industrial park activity in Ethiopia (public and private) and plays an important coordination role among other government agencies (OSS) involved in the industrial parks program, investment attraction for the industrial parks, industrial park oversight, and industrial park policy implementation. A priority at the EIC is to put in place the essential government coordination framework and processes that are essential for the efficient running of the OSS. Critical to this is commitment/cooperation from government entities that are participant in the OSS, as well as extensive capacity-building and technical support to put in place a coordinated workflow for all the OSS services.<br>• There appears to be a lack of a systemized approach to ensure compliance with social standards and a pressing need for extensive capacity building at both IPDC and the EIC. These present a risk to the social sustainability of the industrial parks. While IPDC has an adequate organizational structure documented, it lacks the human resources and knowledge to put this into practice. Previously, IPDC had attempted to bring in the required industrial park management expertise through its agreement with Kunshan (to manage Hawassa industrial park), but this has not been successful mainly due to capacity gaps. The key challenge faced by IPDC is operationalizing the industrial park structure and the lack of knowledge and capacity to do so. While IPDC acknowledges its lack of internal industrial park management capacity, it believes it would benefit from across the board capacity building. At the EIC level, the |

| | |
|---|---|
| | complexity of coordinating across many government agencies to set up and operationalize an OSS has led to the perceived lack of a clear workflow and procedure. There are efforts underway to draft an OSS operations manual is which is planned improve the OSS service quality. IPDC suggests that the most effective way to address the OSS coordination challenges is enabling the EIC to set up an online platform for automated OSS service delivery. Although there is clear intention on the part of both the EIC and IPDC to adopt and implement a best practice system to ensure social compliance in the industrial parks, the lack of capacity in manpower and knowledge (and perhaps budget) could pose a challenge to the EIC's target of operationalizing the labor unit within the coming six months. |

***Expenditure Framework: Level, efficiency, and effectiveness of government expenditures***

24. **Financial Sustainability and Funding Predictability.** The capacity of the Government to finance the execution of the Program relative to the Government's overall fiscal situation in a multiyear perspective has moderate risks. Based on the International Monetary Fund/World Bank Joint Debt Sustainability Analysis for 2016, Ethiopia's risk of external debt distress overall is moderate, although vulnerabilities linked to export underperformance, as well as failure to reign in project-related imports and refrain from associated new non-concessional borrowing could result in the deterioration of debt sustainability.[16] With regard to funding predictability, the Federal Government budgeting process involves the preparation of a medium-term fiscal framework (MTFF) that lays out the expected resource envelope, as well as funding requirements of all Federal Government programs and activities over the medium term. The MTFF is then used as a basis for the annual budgeting process. The 2015 PEFA assessment for the GoE gave a rating of 'C+' for predictability in the availability of funds for commitment of expenditures. A key risk which could influence the Government's ability to execute its budgeted expenditures under the Program is exchange rate risk (the GoE devalued its currency in October 2017).

**Adherence of Budgeted Program Expenditure and its Execution to the Government's Priorities**

- **Alignment of budget allocations with Government priorities.** The Government's GTP is used as a basis for resource allocation in the Federal Governments' MTFF and the annual budgeting process. The rate of budget execution at the Federal Government level has remained high. The 2015 PEFA assessment for the Federal Government gave a rating of 'A' for aggregate expenditure outturn compared to original approved budget. Moreover, the rating given for composition of expenditure outturn compared to original approved budget was 'B+'.

- **Comparison between Program expenditure composition outturn and the expenditure composition in the budget.** As the Jobs Compact Program is new, it is not possible to evaluate historical data on expenditure outturn. Based on the PEFA assessment of general Federal Government BIs, the overall credibility of the budget is adequate. The composition of expenditure out-turn compared to the original approved budget is good, with composition variance exceeding 10 percent only between 2012 and 2015.

- **Relationship between budgetary allocations and intended results.** The expenditure levels are deemed appropriate for the achievement of results. Most of the institutions benefit from donor-supported financing (ILO, UNHCR, and DFID are among some of the main partners supporting the implementing agencies).

[16] International Monetary Fund. 2016. *The Federal Democratic Republic of Ethiopia: Staff Report for the 2016 Article IV Consultation – Debt Sustainability Analysis*.

- **Budget allocations across the various types of Program activities.** The budget allocations for the costs identified in the expenditure framework will allow the Program to achieve its expected results.

25. **Efficiency of Program expenditures.** While there was a lack of sufficient information to undertake a comparative assessment on the efficiency of program expenditures, it is expected that this Program will help in improving the efficiency of service provision in the major implementing government institutions. The actions in the PforR are expected to lead to greater efficiency of spending and effectiveness. In efficiency, the DLIs encourage outcomes and results. In the EIC they will increase the number of proactive investment promotion and facilitation activities, leading to increased private sector investment. In IPDC there is a focus on financial sustainability, which will encourage public-private partnerships (which are well proven to add to efficiency). In MoLSA, the focus is encouraging close partnerships with a private sector demand driven by Better Work (ILO and IFC). This will encourage a more effective inspection regime, which will contribute to better regulatory outcomes and support for Ethiopia's eco- and social-friendly country branding. Under ARRA the PforR support will encourage the ability of refugees to cope through their employment under the industrialization strategy. This will reduce ARRA expenditure in the camps.

*Results Framework and Monitoring and Evaluation*

26. The technical assistance component, financed through the IPF instrument, will support the Government to put in place adequate capacity, including a robust M&E system for the Program. The EIC will be implementing the technical assistance, including providing support and technical resources to ARRA to help with the operationalization of the Government's pledges and deliver on the DLIs and PAPs related to the refugees' Program. The technical assistance will be implemented using the World Bank Group Policies and Procedures for Investment Project Financing (IPF). The PAP includes the setup of an M&E system to monitor and track program interventions, outputs, and results, including putting in place competent staff.

27. The Results Framework, included in annex 2, comprises the Program's DLIs and the additional intermediate results indicators, which contribute to the overall results chain for the Program. Actions and processes required to achieve the expected results/outcomes have been integrated in the Results Framework.

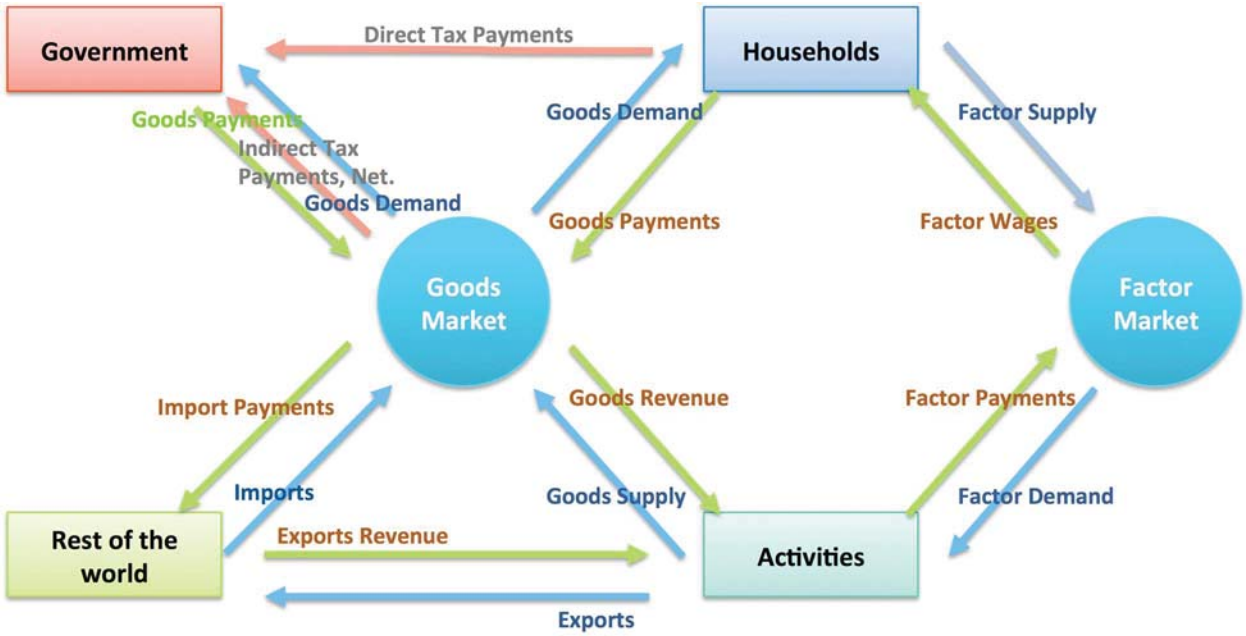
*Economic Analysis: Is the Program Economically Justified?*

28. The Global Trade Analysis Project (GTAP)-Computable General Equilibrium (CGE)[17] model is used to estimate the net benefits from investment climate and employment reforms, as well as investment promotion efforts to be initiated by the PforR. CGEs are a class of economic models that use actual economic data to estimate policy interventions' impact regarding investment promotion policies, technological progress, or changes in the labor markets. The CGE model that is based on the GTAP modelling framework and database was adapted/updated for Ethiopia using the World Bank Group's and International Monetary Fund's macroeconomic framework.

29. The Ethiopia CGE model describes the flow of goods from production activities to households and the flow of production factors from households to activities, as well as the payments for goods and factors going in the opposite direction as shown in figure 4.7.

[17] Such an economywide analysis was developed using the global CGE model developed by the GTAP.

**Figure 4.7. Schematic Representation of the Flows in the Ethiopia CGE Model**




30. The Ethiopian economy is disaggregated into 57 sectors to reflect the major produced and traded commodities, mainly grains and crops, meat and livestock, extraction industries, processed food, textile and apparel, light manufacturing, heavy manufacturing, utilities and construction, transports and communication, other service sectors.[18] Skills in the labor market are presented as managers and legislators, service providers and sales personnel, professionals, clerks, or elementary occupations. This classification matches the skills classification in the PforR (formal entrepreneurship, own account self-employed, and formal wage employment).

31. The CGE model is used to simulate the expected benefits from DLIs. These policy results are compared to a counterfactual scenario that ignores the PforR action, thus showing the net benefits from the project implementation.

*Counterfactual*

32. The counterfactual scenario describes the most likely growth path for Ethiopia without the PforR action. Historic growth trends of the Ethiopian economy are extrapolated for the next eight years, that corresponds to the period covered under GTP II (2016–2025). Growth assumptions are based on the World Bank/International Monetary Fund growth forecasts.

33. The economywide analysis is based on the standard GTAP dataset and parameters are fine-tuned to reflect the economic framework in 2016 (initial year for the simulations). Regarding 2017–2025, the historical growth trend for the past decade is extrapolated to develop the expected growth prospects under GTP II.

[18] See detailed technical description of the model for further information

*Policy Simulations*

34. The policy simulations estimate the assumed related economic benefits from the policy actions that trigger the DLIs. These policy actions are introduced into the macroeconomic model shown in table 4.3.

**Table 4.3. Macroeconomic Model**

| DLI | Economywide Model Dynamics |
|---|---|
| i. Refuge-related Employment and Protection | Increased purchasing power of the refugees translate to<br>• Increased demand for goods and services (a multiplier effect);<br>• Higher tax revenues (for example, employer, employee, revenue tax); and<br>• Increased employment opportunities in the sectors producing goods and services for final consumption.<br><br>Economic transformation targeted within government reforms is boosted by<br>• Efficient reallocation of the refugee and local labor forces across sectors<br>• Additional US$250 million financing package by donor partners (to complement the PforR operation)<br>• Formalization of small and medium enterprises to create jobs and tax revenues |
| ii. Improving the Broader Investment Climate | Higher yields from investment across productive sectors<br>Investment promotion and export marketing through the EIC actions<br>Increased domestic and FDI<br>Increased exports in competitive sectors through the EIC actions<br>In line with the country's industrialization agenda, the priority is generation of job opportunities outside the agriculture sector |
| iii. Improving Labor Productivity and Quality of Jobs | Labor productivity increases in the garment sector (convergence toward China or Vietnam)<br>Similar productivity effects on other light manufacturing sectors |
| iv. Enhancing the Sustainability of Existing Industrial Parks | Increased labor productivity of people working in the parks or living at their periphery<br>Increased attractiveness of the parks for foreign investors |
| v. Fiduciary Systems Strengthening | Improved investment climate<br>Increased domestic and FDI |

*Expected Net Benefits*

35. The cumulative effect of these actions is an additional 4.2 percent increase in real GDP by 2025, that is, a 0.5 percent additional annual increase in GDP for the next eight years.

36. In addition to an increase in investment by 12.5 percent (above the counterfactual), the TFP increase of 7 percent results in an accelerated growth path beyond transition to the middle-income status by 2020 (in line with the International Monetary Fund/World Bank projections).

37. In balance of payment, the increase in exports to the European Union and the United States will increase by 3.5 percent and 0.8 percent respectively.

*Overall Benefits*

38. The overall benefits from the proposed reforms (cost US$263 million) are estimated to help the GoE reach the DLI targets in the next eight years. The results are likely to boost the country's real income by US$5 billion. Thus, a benefit-cost ratio of around 20.

**Annex 5: Summary Fiduciary Systems Assessment**

**Ethiopia Economic Opportunities Program (P163829)**

***Introduction***

1. An IFSA was conducted for Ethiopia Economic Opportunities Program, herein after referred to as the Program, prepared using the PforR instrument. The assessment was carried out on the EIC, MoLSA, ARRA and IPDC, consistent with World Bank Policy, World Bank Directive, and Guidance Notes for PforR financing.

2. In addition to the assessment conducted above, the IFSA used the latest diagnostic work available, this is, the PEFA assessment 2014/15 reports that covered the Federal Government and six regions. Since the Program is implemented at the above mentioned federal level entities, the IFSA specially examined issues related to the Federal Government. The review assessed financial management, procurement system rules and procedures and their application, including oversight mechanisms at the Program implementing entities as well as fraud and corruption and compliant handling mechanisms.

3. The IFSA aimed to review the capacity of the implementing entities on their ability to (a) record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable information for the borrower and the World Bank; (b) follow procurement rules and procedures, capacity, and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the PDO and risks associated with the Program and the implementing entities; and (c) to ensure that implementation arrangements are adequate and risks related to fraud and corruption as well as complaints handling mechanisms are reasonably mitigated by the existing framework.

***Program Expenditure Framework Assessment***

4. Please refer to section on the technical assessment on the Program expenditure framework analysis and review.

***Financial Management***

5. The GoE has been implementing a comprehensive PFM reform with support from development partners, including the World Bank, for the last 15 years through the Expenditure Management and Control sub-program of the Government's civil service reform program. This has been supported by the closed IDA financed Public Sector Capacity Building Support Program and Protection of Basic Services Program. The current PFM reforms are being financed through the IDA financed Promoting Basic Services (PBS) Program, Enhancing Shared Prosperity through Equitable Services Program, PFM Project, and other donor financing as well as the Government's own financing. These programs have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting, and auditing.

6. Seven PEFA assessments were conducted during 2014/15.[19] The PEFA indicators are improved in this assessment and place Ethiopia as one of the most robust PFM systems in Africa. Good improvements were noted in most of the Federal Government ratings although the rating differs among regions. Generally,

[19] GoE, Addis Ababa City Government (AACG), Amhara Regional Government (ARG), Oromia Regional Government (ORG), Southern Nations and Nationalities Peoples' Regional Government (SNNPRG), Tigray Regional Government (TRG) and Somali Regional Government (SRG). The assessments are repeats, except for TRG and SRG.

the budget credibility of the country remained to be good supported with continuing robust budget execution and internal control systems. Budget transparency and comprehensiveness has also improved since the 2010 assessment. Good performance was noted on arrears management, access by public to fiscal information and revenue administration. The tax audit function is gradually increasing focus on risk assessment, but capacity constraints remain. Budget execution systems appear to continue to work well. Robust internal control systems remain. Procurement systems have improved since the 2010 assessment, although publication of procurement information has not progressed as much. Furthermore, effectiveness of scrutiny has strengthened to an extent given that the macroeconomic and fiscal framework is being reviewed by the relevant legislation unit and strengthened procedure for review of draft budget. Legislative scrutiny of audit reports improved performance on depth of hearing and monitoring implementation of recommendations. Although improvements are noted, strengthening the internal audit function has proceeded at a slower pace than expected. The assessment revealed that high staff turnover and capacity constraints remain in procurement and internal audit capacity. The provision of electronic links between the IBEX systems in Bureaus of Finance and Economic Development and those in sector bureaus, where IBEX was being established on a stand-alone basis remains to be the constraint affecting the ratings on accounting and reporting. In addition, timeliness of the preparation of statements and coverage has progressed, although regional reports are submitted to the Federal Government with delay. The assessment also indicated that the external audit has progressed overall, but capacity constraints remain. The detailed issues and score are attached in the full IFSA annex.

7. **Planning and budgeting.** As indicated in the PEFA assessments, the GoE has a well-functioning planning and budgeting system. The Government fiscal year (July 8 to July 7) has three cycles: the planning cycle, budget preparation and recommendation, and budget execution and implementation. Following the budget call letter from MoFEC, Federal public bodies prepare annual budget and submit budget requests to MoFEC. After a budget hearing is conducted, MoFEC prepares a draft consolidated and recommended budget and submits to the Council of Ministers. In turn, the Council reviews it and recommends it to the House of Peoples' Representatives (HPR). After consideration, HPR will send the budget document to the Budget and Finance Affairs Standing Committee for further scrutiny. The Committee, in the presence of MoFEC officials and invited stakeholders, conducts consultation on the annual budget. Once approved by the HPR, the recommended budget becomes the approved budget. The approved budget and the annual appropriations referred as the Proclaimed Budget, and are published in the Negarit Gazeta. Then MoFEC will notify public bodies of their approved budget up to mid-July. Each public body then captures the annual budget in IBEX and submits an annual work plan to MoFEC. The two proposed implementing entities (EIC and MoLSA) follow the Government budget procedures and calendar in preparing their annual budget. Both prepare the annual budget based on program budgeting. The financial year for ARRA runs from January 1 to December 31 each year. The annual budget calendar is between September and December each year. The major source of finance for the annual budget is UNHCR's installments. The decentralized budget system is followed. Each refugee camp prepares its annual budget and submits it to their respective zone office. After the zone office consolidates the camps' budgets, a budget hearing is conducted at the zone office in the presence of UNHCR's officials. Then zone offices send the recommended budget to the ARRA headquarters. At the headquarters, a consolidated budget (zone offices and headquarters budget) is prepared and a discussion is conducted on the consolidated budget in the presences of all concerned bodies. The approved budget is then sent to UNHCR. Finally, the UNHCR notifies the approved amount of the annual budget in a letter to ARRA. IPDC's fiscal year is the same with the Government, but the budget calendar is not strictly the same. Like the Government, IPDC's annual budget is prepared based on programmed budgeting. A participatory budget preparation process (involving staff at all units) is followed. The consolidated budget after being reviewed by the management is submitted to the IPDC board and MoFEC for approval. A delay in finalizing the budget manual procedure was noted. The manual was under preparation during the assessment team's visit. IPDC's budget sources include shed rentals, treasury, sheba bonds, Industrial Development Fund, the World Bank, and China Exim bank. Part of the implementing entities' annual budget would be considered as Government financing. Unless a specific budget code is

given at budget preparation, it would difficult to trace the budget and expenditure during reporting. It also will be difficult for capturing Program-related transactions and reporting on them. ARRA uses the Gregorian calendar as fiscal year, which is different from EFY and needs alignment during the Program implementation.

8. **Budget monitoring.** The budget control of the proposed four entities is satisfactory. Before effecting payment, the transaction requested for payment is checked on whether it is included in the approved budget and whether sufficient uncommitted budget balance is available. The EIC and MoLSA use the IBEX budget control module, IPDC uses Excel spreadsheet, and ARRA uses 'FAST' system to track expenditures against the budget. In addition, a quarterly report (comparison of budget with actual expenditure) is produced and performance is monitored by the management. With regard to the annual budget utilization, except IPDC, a good budget performance was registered by the other entities in the past three years. Capacity constraints, contractors' delay in completing works on time, and the regions' delay in effecting right-of-way payments and resettlements were reasons for low budget utilization by IPDC.

9. **Program budgeting arrangements.** The Program will follow the Federal GoE's budgeting procedure and calendar. The procedures and calendar are documented in the Federal GoE Budget manual. The budget calendar of ARRA is Gregorian (January to December). For the program, ARRA will follow the Government budget calendar. Considering all financing sources, one plan and budget is prepared for the Program. The PIU at the EIC, in consultation with the implementing entities, will prepare an annual work plan and budget for the Program, based on the Program's objectives and resources. The work plan and budgets will identify the activities to be undertaken by each implementing entity. A specific budget code will be assigned for the Government financing and so that the related expenditure could easily be traced during reporting. The Program budget preparation should be prudent, realistic, and made with professional estimates to avoid unrealistic budgets. The annual work plan and budget will be forwarded to the steering committee for approval. Finally, the budget will be submitted to MoFEC for final endorsement. Portion of the Government financing with specific budget code is incorporated in the annual budget of all implementing entities. The Donors' financing is proclaimed under the EIC budget. At transaction level, before payment, the request for payment will be checked whether it is included in the approved budget and availability of sufficient uncommitted budget balance. At reporting level, the budget utilization of the Program will be monitored at least quarterly. The budget variances will be adequately explained and justified through the semiannual financial reporting (IFRs) to the World Bank. A POM will be developed and will incorporate, among others, the detailed budget preparation process and budget monitoring aspects.

10. **Fiscal transparency.** As indicated in the PEFA 2014/15 report, the overall fiscal transparency of the Federal Government is still low. The budget was not available to the public at the time it is submitted to Parliament, nor budget execution reports during the year. At Federal level, MoFEC posts the federal annual budget on its website. Audit reports (in Amharic) from the OFAG are posted on its website within six months of completed audit. Auditor General's speech to parliament, summary of regularity and performance audit are posted. The annual budget and audit report of the EIC and MoLSA are disclosed on MoFEC and the OFAG websites respectively. However, the annual budget and audit report of IPDC are not disclosed on its website. UNHCR disclose the annual budget and expenditure for the Ethiopia program (2014-2017) on its website. However external audit report is not disclosed. MoFEC and the OFAG will continue to disclose Federal PBs budget and summary of audit report respectively on their website. IPDC's annual budget and annual audit report and annual external audit report for ARRA will be posted on their websites. The Program external audit report will be disclosed on the EIC's website.

11. **Treasury management and fund flow.** The 2014/15 PEFA assessment found that at the federal level the cash management has been improved through a Treasury single account and BI zero-based bank accounts. After receipt of budget notification from MoFEC, BIs prepare action plan and monthly cash requirements. Based on the monthly cash requirement, MoFEC set monthly ceilings to be paid from the

BI's zero-bank account. Therefore, BIs obtain adequate funds in a timely manner to implement the annual budget. The major source of fund for the EIC and MoLSA is Government budget. Both collect internal revenue on permit fee (investment permit and work permit on expatriate respectively). The internal revenue is transferred intact to MoFEC. As shown in the annex, both received fund from MoFEC for the allocated budget in the past three years. Starting from EFY 2009, the EIC has also been implementing European Union project- Transformation Triggering Facility (TTF) and received about Euro 18 million. MoLSA is also receiving funds from ILO, UNICEF and WFP but the amount is insignificant (in total ETB 2 million in a year). The Ministry is also implementing the World Bank's projects (Rural Productive Safety Net Project, P163438, and Urban Productive Safety Net Project, P151712) though the fund size is small. The major source of finance for ARRA is UNHCR. Food in kind (with operating budget for loading & unloading) is provided by WFP. As indicated in the budget utilization table in the annex, ARRA received funds from UNHCR almost for the allocated budget in the past three years (2014-2016) though some time there was delay of fund transfer. The source of finance for IPDC is income from shed rentals, Government (treasury) allocations; financing from World Bank; and China EXIM bank. IPDC has not yet received funds from the China EXIM bank. Shed rentals are collected based on lease agreements with clients while funds from treasury, Sheba bonds and Industrial Development Fund are received from MoFEC upon submission of payment requests for each individual payment. In general delay in fund releases are not found to be a challenge but since the other proposed donors (EIB and European Union) use parallel financing for the Program it would be a challenge to trace the source unless properly mitigated.

12. **Program treasury management and flow of funds.** Disbursement of the PforR fund will be made upon achievement of the DLIs. Upon achievement of the indicators, the EIC will inform the task team and provide evidence, as per the verification protocols, to justify the results for the DLI. In case of partial achievement of the DLI, the same criteria will be used. In case of a scalable DLI, the task team will determine the amount to be disbursed based on the Program's progress report and DLI verification protocol. A notification will be made to the borrower to advise the amount to be disbursed against progress achieved toward the results of the scalable DLI. Disbursement requests will be submitted to the World Bank using the World Bank's standard disbursement forms signed by an authorized signatory. An initial advance can be made through agreement with the World Bank for up to 25 percent of PforR financing for DLIs that have not yet been met following effectiveness. Although PforR operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the borrower under the Program over its implementation period. If, by Program completion, World Bank financing disbursed exceeds the total amount of program expenditures, the borrower is required to refund the difference to the World Bank. The PforR does not require separate banking arrangements, but as usual with most PforR operations the MoFEC prefers to have a separate bank account to receive the Program Funds. Therefore, IDA funds will be deposited to a separate foreign currency account. Once IDA resources reach the separate foreign currency account, the funds can be used to finance Program expenditures or can be transferred to a local currency accounts. All implementing entities will open separate local currency accounts for the Program.

13. **Accounting.** The 2014 PEFA notes strong accounting and reporting systems in the country. Double entry modified cash basis of accounting is in use. IBEX system is in use for budget, transaction recording and producing reports. The IBEX system is operating in stand-alone mode at each PBs. IFMIS has been under implementation in eight PBs and under rollout at other Federal PBs. IFMIS contains modules for General Ledger, Accounts Payable, Accounts Receivable, Cash Management, Public Sector Budgeting, Purchasing, Payroll, Inventory and Fixed Assets, and is interfaced with ASYCUDA and SIGTAS of ERCA's systems. The EIC and MoLSA follow the Government accounting system. Currently IBEX is in use for transaction recording and for generating report. At the EIC, IFMIS is under rollout and implementation is expected starting from the current year. Finance Directorate (EIC) and Finance, Procurement and Property Directorate (MoLSA) are responsible for the accounting and reporting tasks. The staff data for both entities is attached in the annex. At the EIC, the current number of staff is not adequate

even to handle the treasury funds. So, it is required to recruit and assigns a financial management specialist and at least one accountant for the PMU or PCU. The European Union's TTF project at the EIC assigned only one accountant and cashier. At MoLSA, one accountant was recruited and assigned for Urban Safety Net Project (P151712). The accountant also handles other donors fund account. Depending on the size of the budget for the Job Compact, one accountant could be recruited and assigned. All the finance related directives issued by MoFEC are available both in soft and hard copies for reference. During the assessment team visit, transaction recording was up-to-date at both entities. Training for staff is provided by MoFEC and is adequate. ARRA follows cash basis of accounting with a liquidation period of one month after the end of fiscal year. Its chart of account is designed based on the needs of UNHCR that is, sector code, location code, budget account code and account code. Account is maintained both at Head quarter and Zonal coordinating offices. Camps only maintain petty cash which is settled monthly and the corresponding documents are submitted to the respective zonal coordinating offices. Currently ARRA uses 'FAST' accounting software which is developed locally. Rolling out of new accounting software (which is also developed locally) was under progress. The new accounting software has finance and HR module. Zonal coordinating offices send the accounting software back up monthly but the supporting documents are kept at zonal offices. Accounting manual which was prepared in January 2004 (when 'FAST' accounting software installed) is available. The accounting manual will be revised when the new accounting software go live. During the assessment team visit, transaction recording was up-to-date. As the volume of accounting work increasing year to year the existing number of staff might be inadequate to handle the proposed program account. Depending on the budget size of the proposed program at ARRA one accountant might be recruited and assigned. Staff capacity-building activities was poor at ARRA. No training provided to staff in recent time. IPDC uses an accrual basis of accounting. Peachtree accounting software is currently used to process accounting transaction and for financial reporting. As the current software is found to be inadequate to fulfill all the requirement of the corporation's accounting tasks there is a plan to move to ERP system. The Finance directorate of IPDC is responsible for the overall financial management aspect of the Corporation. Currently all the transactions of the corporation are being handled at the head office level. The staff data is attached in the annex. IPDC is implementing the World Bank's project—Competitiveness and Job Creation Project (P143302). The accountants assigned for the project could handle the proposed program account otherwise depending on the size of the budget to be allocated for the program, one accountant could be recruited. IPDC has a Financial Policy Directive which was approved by the Board and was effective on December 23, 2014. This directive provides overall framework upon which financial decisions, recording, reporting, and other related activities are performed. During negotiations it was confirmed that the directive revisions have been finalized and approved by the Board of IPDC.

14. **Program accounting.** The GoE's accounting policies (Modified cash basis) and procedures will apply for the Program. In addition, a POM will be developed and will incorporate the basic accounting and reporting arrangements, and procedures of the Program. Separate account for the program is maintained at each entity. Suitable accounting software for the Program will be used. Specific account code will be included in the existing chart of account of the implementing entities to trace the Government financed expenditure for the Program. Chart of account which will accommodate the requirement of the Program will be designed. The balances of the Government financed expenditure for the Program, recorded in the specific account code, at each implementing entities will be recaptured (through JV) in the Program account as part of the PforR expenditure. One financial management specialist and one accountant will be recruited and assigned at the PMU/PCU of the EIC. Depending on the volume of accounting work, one account at the other each implementing entity will be recruited and assigned.

15. **Financial reporting.** The 2014 PEFA indicated that at federal-level improvement has been made on timeliness and quality of financial reporting. Monthly budget execution reports are produced, allowing regular comparison with the budget. Annual financial statements are fairly comprehensive and timely. The annual financial statements are prepared on an historical cost basis, using a modified cash basis of accounting. It includes information on revenues and expenditures, and financial assets and liabilities. The

EIC and MoLSA follow the Government reporting system. Both submit monthly financial statements to MoFEC in soft and hard copies within the stipulated dead line (within 15 days after the month end). Both entities closed the EFY 2009 accounts and submitted to MoFEC and OFAG.

16. ARRA submits quarterly IPFMR to UNHCR. The IPFMR contains both financial and physical activity report. ARRA is required to submit the quarterly report within 15 days after the end of the quarter. The quarterly report is being submitted within the deadline. For instance, the 1st quarter report for 2017 was submitted on April 10 (5 days before the dead line and the 2nd quarter report on July 15, 2017 (on the deadline). Annual financial statement is also prepared and is submitted to UNHCR and external auditors. IPDC produces consolidated financial statements of the entity for both internal and external use. The internal reports are intended for management and Board while the external reports are mainly for the tax authorities. The reports to management and Board are produced on quarterly basis and include: budget vs. expenditure reports, profit and loss statement, balance sheet, ratio analysis and narration to explain performance and budget variances mainly on revenue. The reports are usually submitted to the management and Board within ten days of quarter closing. The recent report submitted was for the quarter ended July 7, 2017. The annual report to ERCA is required to be submitted within four months of the yearend and the assessment team noted that the report was under preparation and is expected to be submitted within the due date. Part of the implementing entities' expenditure will be considered as government financing. Different accounting systems in the implementing entities makes consolidation challenging as it will have to be done off the system. Tracing the expenditure for the Program from the accounting system and the corresponding supporting documents for reporting and audit will be difficult. The current accounting software being used at IPDC is not fulfilling the requirement of the growing transaction. This would affect quality and timeliness. Delay in finalizing procedures manual (budget, accounting internal audit).

17. **Program financial reporting.** Each implementing entity will prepare semiannual IFR for the Program and submits to the EIC within 30 days after the end of the semester. The EIC in turn will prepare semiannual consolidated IFR. This will be submitted to the World Bank within 45 days of the end of the semester. The IFR will incorporate all sources and uses of the program funds. The format and the content has been agreed with the EIC during negotiation. The EIC will also prepare annual Program financial statements in accordance with acceptable standards within three months of the end of fiscal year and make available to the auditors to enable them to carry out and complete the financial audit on time.

18. **Internal control.** The PEFA 2014 found that the Government internal controls are generally comprehensive and sound. Internal control procedures include segregation of duties in the request, verification and approval on the movement of resources such as cash, supplies and properties. Payments are effected against approved payment requests and on verification against budget. Internal control procedures are well captured in different manuals and directives issued by MoFEC.

19. The assessment found that the internal control system at the four proposed implementing entities is reasonable. The required internal control procedures are incorporated in the accounting manuals (EIC, MoLSA, and ARRA). However, IPDC's accounting manual is under preparation and is expected to incorporate detail control procedures. There is segregation of duties at these entities. The functions of preparing, certifying and approval of payments - and ordering, receiving and accounting for purchases are clearly segregated. Control over payroll is strong, monthly bank reconciliation is performed for all bank accounts and up-to-date. Cash count is conducted monthly and reconciled with ledger balance. Except at IPDC, Proper fixed asset register is maintained; fixed assets count is conducted once a year and reconciled with the register. IPDC has not yet finalized maintaining a comprehensive fixed asset register and identification number is not affixed on the assets. At the four entities, proper record is maintained to control stock movement. Custodian ship and stock recoding tasks are performed independently.

20. **Internal audit.** The 2014 PEFA noted that all Federal BIs have functioning internal audit units, which prepare annual audit plans on a risk basis and report quarterly to MoFEC Inspection Directorate. To enhance independency, internal auditors are assigned and removed only by MoFEC. Audit findings are discussed with auditees at the conclusion of each audit and action plans are agreed and followed up. The PEFA noted that high staff turnover remains a challenge for improvement of internal audit function. Internal audit manual (2004), internal audit training module (2005), internal audit reporting procedure manual (2010) and performance audit manual, standards and implementation guide (2013) are available for reference. All are issued by MoFEC. The assessment corroborated the PEFA findings (mentioned in the above paragraph) at the EIC and MoLSA. The current number of internal auditors at the EIC, as shown in staff data, in the annex, is not adequate to perform the audit effectively. The internal audit unit should be strengthened by filling the vacant posts as the books of the accounts of the proposed Program are subject to internal audit review. At ARRA, the internal audit unit is established in the current year (2017). This year much of work is performed to strengthen the unit and as such regular audit work was not yet started. The audit unit is accountable to the Deputy Director. Audit manual in Amharic was prepared. Training has not yet provided to the internal auditors. In view of ARRA is new for internal audit function, a lot of capacity-building activities are needed to strengthen the unit. IPDC has an internal audit service that reports to the Board. As shown in the staff data in the annex the unit is staffed as per the structure. The unit has an internal audit charter; however internal audit manuals are not yet developed. The manuals are under preparation along with other procedure manuals of IPDC. The internal audit unit coverage of the planned tasks is satisfactory. A performance audit on property administration was also conducted. Currently internal audit is performed only at the head office level. The current staffing arrangement is inadequate with the level of IPDC and needs to be strengthened in number and capacity so that audits can also cover the Industrial Parks. The internal audit units at proposed implementing entities are not adequately staffed and due to this the Program book of account might not be reviewed. IPDC has not yet finalized maintaining a comprehensive fixed asset register and affixing of identification number on each fixed asset items.

21. **Program internal controls (including internal audit).** Government rules/regulations and directives as well as manuals in regard to internal control procedures will apply to the Program. In addition, a POM or Program Implementation Manual (PIM) will be developed and will highlight these internal control arrangements that are aligned with the Government rules/regulations/directives. The internal control on segregation of duties, payroll, cash and property management found to be satisfactory during the assessment. These will be further strengthened and continued during the program implementation. During the assessment, it was noted that internal audit units at implementing entities were under staffed. The internal audit unit in each implement entities will be staffed adequately and capacity-building trainings will be provided. The program's books of account will regularly be reviewed by internal auditors at all implementing entities

22. **External audit.** The 2014 PEFA indicated that external audit follows international standards, and reached to cover 100 percent of Federal Government expenditure. For EFY 2008, 158 FPBs that need audit were audited. Clean opinion was issued for 27 PBs, 'Except for' opinion for 73, Disclaimer for 5 and Adverse for 53. The OFAG Performance audits are also undertaken. Audit reports to parliament are up to date. In Parliament, the Public Accounts Committee reviews the OFAG report with the heads of BIs in default. The OFAG disclosed Auditor General's speech to parliament, summary of regularity and performance audit on its website. The books of account of the four entities are audited annually. The audit is up-to-date and there is no backlog. The follow up of managements to improve the audit findings is found to be satisfactory at the four entities.

23. **Program external audit arrangements.** The EIC will be responsible for the audit of the Program annual financial statements and submitting. The auditor will express an opinion on the Program financial statements and also issue a management letter highlighting internal control, compliance and other weaknesses. The audit will be carried out by the OFAG, or a qualified auditor nominated by the OFAG and

acceptable to IDA. The audit will be conducted in accordance with agreed terms of reference has been agreed during program negotiation. The Program's external auditors might use implementing entities' external audit report as additional evidences especially for Government financing expenditures at implementing entities. The Program audit report will be submitted to IDA within 6 months from the end of the fiscal year. The World Bank requires that the Borrower to disclose the audited financial statements in a manner acceptable to the World Bank. Following the World Bank's formal receipt of these statements from the borrower, the World Bank makes them available to the public in accordance with the World Bank Policy on Access to Information.

24. **Overall, it is the conclusion of the assessment that the financial management risk is rated 'High'.** The assessment found that the proposed implementing entities' financial management performance is reasonably robust, but with some limitations. The budget is prepared and approved per the budget calendar, there is an adequate budget monitoring system, adequate accounting and internal control system, financial reports are prepared on time and subject to annual external audit. However, the assessment noted weak internal audit function, inadequate human resources at finance sections, inadequate capacity-building activities, inadequate accounting software in use at IPDC for the current volume of transaction, and delay in maintaining proper fixed asset register and in finalizing budget, accounting, and internal procedures manuals. The main challenge noted is with regard to program reporting. Because a portion of the allocated budget to implementing entities by the GoE will be considered as government contribution to the program, identifying and reporting of the portion of the expenditure is expected to be a challenge. To address the challenges and risks noted, mitigation measures are proposed which consist of a combination of DLIs and PAP items.

***Procurement***

**Program Procurement Performance**

25. The implementing agencies of the Economic Opportunities Program include the EIC, IPDC, ARRA, and MoLSA. Some of the institutions which include ARRA and IPDC do not follow the procurement proclamations and procedures of the Federal Government.

26. The EIC, MoLSA, and ARRA carry out procurement of goods and services and in the case of ARRA the procurement of very small works. The procurement activities carried out by these Federal government institutions are very low value and in most cases low risk goods, works, and services. In ARRA, the procurement activities are carried out to provide shelter, clothing and support to refugees and are financed by United Nations and other donor agencies. The EIC's annual budget is around US$3.5 million and the amount allocated for procurement is not more than US$0.5 million which is about 14 percent of the Agency's annual budget. In MoLSA the annual budget is around US$1.6 million of which about 31.6 percent is expended on procurement of goods and services. In ARRA in 2016 procurement activities of around US$7 million were carried out for refugees' support.

27. IPDC has extensive experience in managing all categories of procurement of works, goods and services. The Corporation has also experience in managing large value Goods, Works and Consultancy contracts. The total annual procurement expenditure is very significant which is more than 85 percent of the agency's total annual budget. This could be due to the reason that IPDC, since its inception, has been involved in the construction of about 11 industrial parks which constitute high value contracts ranging from US$62 million to US$283 million. IPDC has also experience in carrying out various consultancy contracts (about 24) which have monetary values ranging from US$12.5 thousand to US$660,000.

**High-value Contracts under the Program**

28. The procurement activities at the EIC, ARRA, and MoLSA are low value contracts, which are aimed at the operational requirement of the institutions. In the case of ARRA procurement activities are also aimed at providing protection and material assistance to refugees. However, in the case of IPDC the procurement activities involve industrial parks development contracts, the value of which in most cases fall within the OPRC threshold. However, the Expenditure Framework of the Economic Opportunities Program does not include such infrastructure works of IPDC under the PforR program.

**Procurement Performance Issues and Risks Under the Program**

29. The key procurement performance issues and risks under the program are detailed in the following paragraphs.

**Applicable Procurement Procedures**

30. Public procurement in Ethiopia is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The Federal Public Procurement Directive issued in June 2010 further defined roles, responsibilities, and business processes. The Proclamation and Directives are based on United Nations Commission on International Trade Law (UNCITRAL) model law and provide a solid foundation for procurement operations. Under the proposed Program, all implementing agencies of the project are expected to use Federal Government procurement procedures for executing the procurement of goods, works, and services. At the federal level, the Government is considering improving specific elements of the procurement law. Currently, the EIC and MoLSA carry out their procurement activities in accordance with the Federal Government's procurement law, and the directive issued by MoFED in June 2010.

31. However, IPDC and ARRA do not carry out procurement activities in accordance with the Federal Government's procurement procedures. They have their own procurement directives which have no legal framework. This is an area which needs to be addressed and the procurement activities in IPDC and ARRA need to be carried out on the basis of a procurement procedure which is based on a legal framework issued by Government. Hence DLIs and PAP are designed to ensure that IPDC and ARRA shall develop a procurement manual which is in line with the Government's Procurement Procedure and which ensures that these institutions shall carry out procurement activities in accordance with the procurement core principles of value for money, economy, transparency, efficiency and fairness.

*Based on the assessment the applicable procurement procedures risk is classified as 'High'.*

***Accountability for Procurement Decisions in the Implementing Agencies***

32. The procurement proclamations of the Federal Government provide that heads of federal institutions relegate power of procurement decisions to an appointed body referred to as Procurement Approval Committee. Such bodies make procurement decisions based on recommendations made by bid evaluation committees and/or procurement units. The EIC and MoLSA operate under such procurement oversight bodies, that is, the procurement approval committees.

33. In IPDC and ARRA such an ultimate procurement decision-making body is not provided for. In the case of IPDC procurement decisions are made by the Chief Executive Officer (CEO) and Deputy CEO of the Corporation. The CEO approves contracts with a value of more than ETB 10 million whereas the Deputy CEO approves contracts with values of less than US$10 million.

34. In ARRA procurement decisions are made at various level. Procurement decisions with a contract value of up to ETB 100,000 are made by the Finance and Procurement Division Head. Contracts with an amount of ETB 101,000 up to 500,000 are made by the Deputy Director. Procurement with a contract amount of ETB 500,001 and above are initially reviewed by a management committee, and is approved by the Deputy Director.

35. Based on the assessment accountability for procurement decisions risk is rated 'Substantial'.

**Organization and Staffing**

36. In the EIC the PPAD is established as a directorate accountable to the Commissioner. The directorate is staffed with one director, one procurement officer and two junior procurement staff which are transferred from other units because of a restructuring. A senior procurement officer's position is vacant but all other positions are filled. The procurement officer and the director are BA holders with more than 6 years' experience. The two procurement officers are college diploma holders with less than three-years general experience and they do not have the required experience in procurement. The procurement directorate has the required facilities like shelves, computers, photocopy machine, sufficient office space for the staff, and so on

37. In IPDC, the PPAD is accountable to the deputy CEO for corporate services. The PPAD is staffed with one director, two senior procurement experts, two procurement experts and two purchasers. Three of the staff including the director are BA holders in Procurement and supply management, one is BA holder in management and the other two are college diploma holders. All of them have educational background in procurement and supply management and most of them have received training on the basic procurement rules and regulations.

38. In ARRA, the procurement division is accountable to the Finance and Procurement Department which reports to the deputy Director. The procurement division has six procurement staff including the division head, two senior procurement officers and three purchase officers. The division head's and the senior procurement officer's qualification is BA degree in management, MA degree and BA degree in business management, respectively. The other two purchase officers are collage diploma holder with 3 and 6 years' experience on procurement.

39. In the MoLSA, the procurement, Finance, and Property Management is accountable to the Social Welfare Development Affairs of the ministry. There are two procurement experts in the procurement team and one team leader under the procurement and finance director who will coordinate both activities on procurement and finance. One of them has a degree in management while the other two have diplomas in purchasing and supply management.

40. The foregoing are the organizational setups for carrying out procurement activities of the Economic Opportunities Program. However, all institutions are characterized by a limited number of qualified staff with qualifications ranging from Diploma to MA degree. There is no well-established career development ladder for the procurement staff to grow professionally. Moreover, in all the institutions reviewed there are no regular training programs offered to upgrade the skills of the procurement staff. Thus, procurement staff turnover is a challenge in most agencies. Most importantly, the procurement staff/purchasers in most of the institutions, including the EIC, ARRA, and MoLSA are not procurement proficient and are familiar only with procurement of low value contracts through shopping procedures. These staff are not familiar with handling high value and complex contracts. At IPDC the staff are familiar, to a certain extent, with the handling of high value contracts of development of industrial parks. Even these staff do not have the required procurement proficiency skills to carry out such high-level responsibilities.

*Based on the assessment the organizational structure and staffing risk is classified as 'High'.*

**Procurement Planning**

41. In the EIC and MoLSA procurement plans are prepared as these are requirements for budget release by MoFEC. However, these procurement plans do not contain the necessary information, including the timeline to be used as procurement management and monitoring tool. Moreover, the procurement plans in these institutions are not updated regularly, to accommodate additional procurement requirements of the institutions as they arise. In the ARRA, the preparation of procurement plans is not practiced at all. This is probably because they are not Government BI and totally rely on external sources for their budgetary requirements. In ARRA procurement activities are handled when such requests arise from user Departments through purchase requisitions approved by the Head of the Finance and Procurement Administration Directorate. In IPDC procurement activities are carried out based on procurement plans approved by the Board of Directors of the Corporation.

42. In all institutions implementing the Economic Opportunities Program, procurement activities should be carried out in accordance with procurement plans which contain adequate information to be used as procurement management and monitoring tool. Particularly ARRA should carry out its procurement activities based on an approved procurement plan whereas the EIC and MoLSA, should have procurement plans which are informative and which can be used as procurement management and monitoring tools.

*Based on the assessment, procurement planning risk is classified as 'Substantial'*

**Procurement Processes and Procedures**

**Procurement Procedures**

43. The EIC, is required to adhere to the federal procurement directives and the standard bidding documents (SBDs) issued by FPPA. The procurement methods are determined based on the cost estimate, availability of market and urgency of the items for the agency. Open bid is the default method but the agency also uses shopping and limited competition depending on the urgency of the need and market availability. The challenges in the Agency in this regard are "urgent" purchases which are not planned and which lead to violating the default open bid method. In some instances, procurement activities are carried out without the involvement of the Procurement Directorate. The EIC also uses two envelope systems for most of its procurement activities and the point allocated for technical and financial scores is 50 percent each.

44. The MoLSA uses the federal government procurement directive of June 2010 which was issued based on the Ethiopian Federal Government Procurement and Property Administration Proclamation. The agency applies the procurement principles in this directive during its procurement execution.

45. IPDC does not follow the Federal Government's procurement procedures. The Corporation has its own directives which guide the procurement process in the Corporation. However, this Directive, which is provided in Amharic version only does not have a legal framework to support it. IPDC did not advertise bids in the past three years except for contracts under World Bank-financed projects. For almost all the contracts the agency used single stage two envelope procurement process through shortlisting of contractors.

46. ARRA has a Procurement Execution Directive No: 01/2009 for Procurement of Goods and Services published in February 2017 in Amharic. Whether ARRA has the legal framework and mandate to issue

such directives is not clear. It has been documented that the deputy director has issued the directives to all branches to make use of them.

47. The EIC and MoLSA use the procurement directives issued by MoFED, which has a legal framework in the Public Procurement Proclamation issued by the Federal Government. However, IPDC and ARRA are using procurement directives which are issued without a legal basis. These directives should have a legal basis and ensure that they reflect the core principles of a modern procurement system including value for money, economy, efficiency, transparency, fairness, and so on.

**Bidding Documents**

48. As the EIC is a Federal institution which carries out procurement activities in accordance with Government procurement proclamations and directives the Bidding documents used are those provided by the FPPA. MoLSA also uses federal government procedures and hence uses RFQs, and Bidding Documents issued by FPPA. ARRA carries out in most cases procurement through Shopping procedures and hence does not use bidding documents most often. However, the Administration uses the Federal Government's SBD for NCB contracts.

49. IPDC uses the International Federation of Consulting Engineers design and builds SBD for most of the contracts signed through random shortlisting of contractors and application of single stage two envelope bidding procedures. Further, the FPPPA SBD is used for national competitive bidding (NCB). In addition, the World Bank's standard pre-qualification document was used for Bole Lemi Industrial Park II and Kilinto Industrial Park I projects financed by the World Bank.

50. The most important limitation in all institutions is that the bidding documents including RFQs, and other bidding documents do not provide all the necessary information required by bidders. The evaluation and qualification criteria are not clear in most of the bidding documents.

51. Based on the assessment the use and clarity of SBDs risk is rated 'High'.

**Procurement Record Management**

52. IPDC maintains procurement records at the procurement directorate level as well as in the archive of the Corporation. The bidding process including bid evaluation and recommendation for contract is filed properly in the office of PPAD. Every procurement transaction is labeled and kept in secured shelves in this office. Even though the record keeping and documentation of the agency is not fully managed it is promising to develop further record keeping habit through capacity-building intervention. In the EIC also procurement record management system is fairly satisfactory and the unit is provided with facilities to keep procurement records in a safe and secure place.

53. In MoLSA procurement document management system is weak and procurement documents are partially available in folders which creates difficulty in getting full information. The procurement documents are not complete and are not organized on contract basis in chronological order. The maintenance of procurement documents in a safe and secure place with no access to unauthorized personnel is also an issue. The procurement documents are not easily accessible and there is no procurement document tracking system which makes procurement review and audit in the institution very difficult. The procurement and contract record system of the agency requires further improvement as procurement and contract management documents are not well captured.

54. In ARRA procurement record keeping is very weak since there is not an organized procurement document management system. Procurement records are not maintained in an organized manner and in a

chronological order. Consequently, it is impossible to retrieve procurement and contract documents not only of the past years but also the active files for the current year which are under process.

*Based on the assessment procurement record management risk is rated 'Substantial'.*

**Evaluation Process**

55. In the EIC the qualification and evaluation criteria are provided in the bidding documents and the evaluation committee carries out the evaluation using the evaluation and qualification criteria provided in the bidding documents.

56. The evaluation is carried out on item by item basis. The evaluation of bids is carried out by an ad-hoc evaluation committee. The committee is established by head of the agency and it serves at least for one year. The PPAD is not represented in the evaluation committee. When the item to be procured requires technical skill the committee will include appropriate technical expert to work with the committee.

57. Experience of the bidder, performance, and availability of post delivery service facility, are the criteria used for the evaluation of bids. There is no standard for the preparation of evaluation reports but the evaluation reports reviewed have the required information to make procurement award decisions. The team has reviewed a sample evaluation report. The evaluation committee has done detailed analysis comparing the bid submitted against the requirement. However, the evaluation committee used merit point system evaluation method giving 50 percent for technical and 50 percent for financial offers. The technical sub criteria and scoring are; compliance of the bid with the specification (25 percent), delivery time (10 percent), completeness of the supporting documents (10 percent) and quantity offered with respect to the quantity requested in the bidding document (5 percent). There is no post qualification evaluation of the least bidder as those are approached through limited competition (shortlisting) method.

58. In most cases, there are delays during the evaluation of bids and contract award decision stages. Mainly the delay is significant during the evaluation stages as the evaluation committee and approval committee members are not available as required. The EIC has a common practice of disclosing the evaluation result by posting on the Agency's notice board. At the same time, all bidders (the winner and the losers) will be notified by a letter with all information of the evaluation result.

59. The evaluation procedure in IPDC is not as such detailed even though single stage two envelope system is being used. In general, standardized self-explanatory evaluation report having clear procedure of evaluation is not in place. The agency does not have standard bid evaluation format to compare evaluation results of earlier contracts. The evaluation reports lack consistency. The minutes of the shortlisting of bidders indicate that this approach is used instead of wide advertisement and open competition in the interest of time and urgency of the projects whereas the delay in the procurement process does not justify foregoing wider advertisement and open competition.

60. In IPDC the final approval of bid evaluation and recommendation for contract award goes to the CEO or the deputy CEO depending on procurement values. The agency notifies the bidders about the outcome of their bid result both successful and unsuccessful at the same time. Subsequent complaints were lodged on some bid results.

61. In ARRA, the Agency assigns bid evaluation committee to prepare the bid evaluation report and the recommendation for contract award. Based on the threshold of approval the responsible department signs on the minutes of meeting.

62. In MoLSA the procurement team leader assigns the team in procurement section as bid evaluation and technical committee. The committees carry out the evaluation of bid and the result of the evaluation and recommendation for contract award is submitted to the endorsing committee for approval. The bid result is notified to all the responsive and non-responsive bidders equally. In MoLSA, the bid evaluation committee submits the evaluation and recommendation for contract award to the endorsing committee. The committee submits the recommendation to the State Minister for comments and approval. After the State Minister's approval, the recommendation for contract award is forwarded to the procurement and finance directorate for the next actions. The legal department in the agency reviews the contract document and gives feedback before it is signed with a consultant, contractor or supplier. The procurement and finance directorate is responsible for signing of the contract as well as the management of the contract.

63. In IPDC and MoLSA, which follow Government procurement procedures, there are procurement oversight bodies, the Procurement Endorsing Committees, which overlook into the integrity of procurement processing including a review and approval of the bid evaluation report. However, in all agencies bid evaluation committees are established by an appropriate body and the approval is carried out by procurement evaluation committees in the case of the EIC and MoLSA, and by heads of institutions or designated approval bodies in the case of IPDC and ARRA. All implementing agencies do not have standard bid/proposal evaluation report formats. Hence the evaluation reports do not provide adequate information about the evaluation process and lack consistency. Another prominent problem in all agencies is that there are significant delays in bid evaluation process, which needs to be rectified in all agencies.

*Based on the assessment carried out bid/proposal evaluation risk is rated High.*

**Controls and Integrity**

64. In the EIC and MoLSA, their books of accounts are audited by the OFAG and there are also internal control structures which focus on the internal financial control of the Agencies' financial transactions. However, there is not a structured control mechanism for procurement activities in the EIC and MoLSA. Although the Federal Public Procurement and Property Administration Agency is responsible to provide procurement oversight in such Federal institutions the assessment has revealed that such procurement oversight is not provided in the EIC and MoLSA. In the EIC, the FEACC has reviewed the procurement activities and facilities and has forwarded some recommended actions for consideration by the EIC.

65. IPDC's book of accounts are also subjected to financial audits by independent procurement auditors. However, procurement audit has not been carried out in the Corporation. In ARRA, the team has not been able to see any documentation on the financial and procurement audits carried out in the Administration. Overall procurement oversight in these agencies is not prevalent and is an area which needs to be addressed under the Economic Opportunities Program.

*Based on the assessment procurement oversight risk is rated High.*

66. In conclusion, the implementing agencies of the Economic Opportunities Program include the EIC, MoLSA, IPDC, and ARRA. The EIC and MoLSA as Federal Government Institutions follow Federal Government Procurement Directive issued in June 2010 for execution of their procurement activities. On the other hand, although ARRA and IPDC, though Government institutions they do not follow Government procurement procedures. IPDC and ARRA have their own procurement directives the legal basis of which is not known.

67. The EIC and MoLSA carry out procurement activities which are of low value contracts and which are meant to meet the operational requirements of the institutions. ARRA carries out procurement activities to provide the necessary shelter, clothing and material support to refugees sheltered in different regions of

the country. The procurement activities of ARRA are carried out through specific project supports provided by donor organizations such as UNHCR. In IPDC large value complex contracts are carried out which are meant to develop industrial parks in different parts of the country.

68. An assessment of the procurement legal framework has indicated that while the EIC and MoLSA are operating on the basis of a procurement directive, which is issued on the basis of a Federal Government Proclamation, ARRA and IPDC carry out their procurement activities on the basis of directives they have issued without a legal framework supporting these directives. This is a critical area which needs to be addressed in ARRA and IPDC so that they execute their procurement activities in accordance with the basic procurement principles of value for money, economy, transparency, fairness, efficiency with integrity, and sustainable development.

69. The assessment has also indicated that there are major weaknesses in all implementing agencies in the areas of organization and staffing, procurement planning, procurement management and processing, procurement record keeping, contract management and control and integrity. It has been noted that in all implementing agencies the essential tenets of modern procurement processing and contract management are lacking to attain the procurement objectives of value for money, and economy with integrity. In some of the institutions and particularly at IPDC procurement processes lack clarity and transparency and such practices need to be fixed under the Program. Most importantly in most institutions the procurement oversight is very weak and does not appear to exist particularly in ARRA and IPDC.

70. To mitigate the foregoing weaknesses in the procurement structure of the implementing agencies DLI and APA are recommended on the basis of the findings of the IFA.

***Fraud and Corruption and Compliant-handling Mechanism***

71. The Program will depend on the Government's system of fraud and corruption prevention and control while its working relationship on World Bank-financed projects and programs is governed by the MoU signed on October 3, 2011, with the FEACC. The overarching framework for addressing fraud and anticorruption risks as well as the mechanism for handling maladministration, procurement and corruption complaints in Ethiopia includes the following: (I) At Federal level: a) the FEACC with its extended presence in federal institutions in the form of EAC Unit/ Officer is responsible for prevention and education as well as coordinating the different components of the ethical infrastructures and liaising with international bodies ; b) the Federal Police (Proclamation no. 720/2011, amended Proclamation No. 944/2016) is responsible for investigation and -c) the Office of the Federal Attorney General formed in 2016 (Proclamation No.943/2016) is assigned to prosecute fraud and corruption allegation at the federal level. II) At regional level, the REACCs are mandated for both prevention and prosecution of fraud and corruption allegation in their respective regions. The assessment suggests that in the course of public resource management, when suspecting incidents of fraud and corruption, any public office can provide tip-offs to the above indicated bodies.

72. At federal level, FEACC, as per Council of Ministers, Regulation No. 144/2008 (No. 144/2000 EC), has an extended presence in over 120 federal level institutions in the form of EAC Unit/Officer. This structure is in place in three out of the four proposed implementing agencies of the Program. These include the EIC, MoLSA, and IPDC. ARRA has no formal structure/staff responsible for ensuring EAC interventions are implemented as needed. The EAC units/officers have, among others, the responsibility to receive and pass tip-offs to the federal police commission and/or to its nearest representative stations and to FEACC, through their regular reporting responsibilities. Additionally, the fraud and corruption prevention and control arrangement in the country is enhanced through the OFAG and institution-based internal auditors, both of which are responsible to conduct financial and performance audits.

73. The cooperation and sharing of information on fraud and corruption allegations, investigations and actions taken on the World Bank-financed projects and programs are governed by the MoU signed between the World Bank's INT and the FEACC on October 3, 2011. The assessment reveals that the MoU was signed at the time when FEACC was responsible for both prevention and prosecution of fraud and corruption allegations and serving as the lead agency that coordinates the overall fraud and anti-corruption of the country through strong vertical and horizontal working relationships with all relevant organizations. The responsibilities of investigation and prosecution of FEACC have since been transferred to the Federal Police and the Office of the Federal Attorney General. FEACC still holds the coordination role of the different components of the ethical infrastructures and liaising with international bodies, including the World Bank. Therefore, it is critical for FEACC to establish a strong relationship with the new players while nurturing existing collaboration with REACCs.

74. In terms of complaints handling, the assessment has revealed that all the visited institutions have different systems for the management of complaints arising in the course of staff management, service delivery, management of resources, and procurement administration. Among the institutions visited, the EIC and MoLSA have formal structural set ups that meet business process reengineering study recommendations (2012/3), whereas IPDC and ARRA are employing ad hoc committees. These ad hoc committees in ARRA and IPDC, as well as supplementary ad-hoc committees formed from time to time at the EIC, are used to address complaints directly related to the key strategic objectives of the respective institutions. In addition, complaint handling system at Hawassa Industrial Park is managed by both the EIC/IPDC representatives, whose main function is to facilitate a one stop shopping (service provision at one place) and complementary to the Park's Operations Management, which is outsourced to China Civil Engineering Construction (CCEC) for three years. The main complaints recorded since the launch of the Park, are focused on facility management/ maintenance such as installment of additional fire call plant, installment of waste water meter, leakage from the fire hose, leakage of the roof top pipeline, sprinkler maintenance, and so on. Complaints are generally submitted by a letter or sources of complaints could also be identified by the Park's maintenance crew who are mandated to regularly visit the different manufacturing shades and take measures. The EIC's representatives also receive any complaints including those mentioned above and monitor the implementation of remedial measures. Thus, the above arrangement coupled with the regular monitoring visit from the federal level contributed to the quick turnaround on lodged complaints. Similarly, procurement complaint management arrangement exists in PPA Directorate, EIC, and MoLSA all of which follows the provision made under the Procurement and Property Administration Proclamation while IPDC and ARRA are using their respective Procurement Directive.

75. Overall, the different but interlinked arrangements reveal the commitment of the government in prevention and control of fraud and corruption. While the efforts are encouraging, the various preventive and curative activities undertaken including the findings of FEACC and EACs, court preoccupation reports, and complaint review board results signify the need to strengthen fraud and corruption prevention and control further at various fronts (structural, staffing, skill/capacity, and commitment).

76. **Strengthening FEACC's Leading Role:** The cooperation and sharing of information on fraud and corruption allegations, investigations and actions taken on the World Bank-financed projects and programs are governed by the MoU signed between the World Bank's INT and the FEACC on October 3, 2011. FEACC is still the lead agency that coordinates the different components of the ethical infrastructures and liaising with international bodies, including the World Bank. In line with this role, F/REACCs have had vertical working relationships in information sharing and reporting. However, since the responsibilities of investigation and prosecution of FEACC at federal level has been transferred to Federal Policy Commission and the Office of the Federal Attorney General starting 2016, there is a need for FEACC to establish strong working relationship with these new stakeholders while nurturing the existing collaboration with REACCs. A formal domestic MoU will be signed between FEAAC and the Office of the Attorney General to formalize their cooperation and sharing of information on fraud and corruption allegations, investigations

and actions taken on the World Bank-financed projects and programs for FEACC to meet the requirement of the external MoU signed with the World Bank's INT.

77. **Structural and staffing gaps.** The capacity of the different offices involved in the Ethiopia Economic Opportunities Program needs to be strengthened through establishing structures and hiring/assigning adequate number of staff and promoting better collaboration among departments (a) The requirement of the Council of Ministers' Regulation No. 144/2008 which stipulates for public agencies to create a unit and assign full time staff to handle EAC interventions is not yet in place in ARRA. Given its importance and the magnitude of resources, the establishment of EAC unit along with the staffing need to be enforced. (b) The internal audit function is one of the key instruments to manage/control use of public resources. ARRA's operational structure generally extends to shelter camp levels (26 camps) all of which have a mandate to manage resources. Currently staffing level of the internal audit structure is at 50 percent of the approved structure. In consideration of the magnitude of resources and the level of division of work from HQ to shelter camps, the internal audit system should be adequately staffed. Similarly, the structural requirement of the EIC's internal audit should be addressed (currently filled at 50 percent) to cover the envisaged expansion of industrial parks. (c) the EIC's EAC staff mainly focused on internal personnel issues with limited involvement in matters related to procurement and resource control. Past procurement complaints in relation to key strategic issues were mainly handled through ad hoc committees/technical dept. but their performance could not be demonstrated for lack of appropriate recording, reporting and information sharing. The system should promote building the capacity of EAC/PCH Officers through inter-departmental collaboration for improved redress mechanism.

78. **Complaint handling.** Overall, the assessment reflects the availability of formal and informal mechanisms for handling maladministration, procurement, and corruption complaints. However, the mechanism for a complaint handling system still suffers from significant gaps in terms of structures, staffing and poor recording, reporting and information sharing mechanism. I) Public complaint handling structures do not exist in both IPDC and ARRA. Ad hoc committees or technical departments were mainly used to handle complaints. Inputs from ad-hoc committees or technical departments will be more effective when anchored in a more systematic manner with the existence of a structure that is accountable for receiving, recording and addressing complains. II) The four visited organizations do not have a functional system for recording, reporting and information sharing for procurement related complaints. This limits the transparency and ability of the EAC/PCH Officers to conduct analysis to systematically address complaints. It is therefore very important to establish a system of recording, reporting and information sharing:

### *Fiduciary Risk Summary and Mitigation Measures*

66. Based on the findings noted earlier, the fiduciary risk assessed for this operation is classified as High. Overall, the fiduciary assessment concludes that the examined program financial management and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle fiduciary risks including the fraud and corruption, including effective complaint-handling mechanisms, have been agreed on and established. Risk mitigation measures for the identified risks have been discussed and agreed with Government. The risk mitigation measures have three approaches: First a DLI is provided in the Financing Agreement to support transparency aspects of the Program. Second specific actions have been proposed that will support the DLI and help improve efficiency and performance monitoring are indicated in the PAP. Third, activities that can be supported through the capacity-building budget or ongoing other initiatives have been clearly identified.

67. Summary of risks, mitigation measures, and action plan are presented in table 5.1.

**Table 5.1. Summary of Fiduciary Risks and Mitigation Measures**

| Risk Description | Proposed mitigation Measures | Significance | PAP/DLI/Other |
|---|---|---|---|
| **Financial management** | | | |
| **Plan and budgeting** | | | |
| Part of the implementing entities' annual budget would be considered as Government financing. Unless specific budget code is given at budget preparation, it would difficult to trace the budget and expenditure there on during reporting. | Specific budget code (in the name of Job Compact) will be given to budgeted expenditure that will be considered as government financing | High | PAP |
| ARRA uses Gregorian calendar as fiscal year which is different from the Government fiscal year. | Since the program will follow EFY, ARRA will align the Program budget and expenditure with government fiscal year | High | PAP |
| **Transparency** | | | |
| IPDC's annual budget and annual audit report are not posted on its website. UNHCR discloses budget and expenditure for the Ethiopian program on its website. However, the related external audit reports are not disclosed. | Annual fiscal information (budget, budget execution and audit report) of all implementing entities as well as for the Program will be disclosed on the website. | Moderate | PAP |
| **Accounting and reporting** | | | |
| Part of the implementing entities' expenditure will be considered as government financing. Tracing the expenditure for the Program from the accounting system and the corresponding supporting documents for reporting and audit will be difficult. | The chart of account of the implementing entities will be redesigned or mapped to incorporate specific account code to capture transactions related to the Program | High | PAP |
| The current accounting software being used at IPDC is not fulfilling the requirement of the growing transaction. This would affect quality and timeliness. Delay also noted in finalizing procedures manual (budget, accounting & internal audit). | The plan to move to ERP system is expedited. The finalization of the manual is also expedited. | Substantial | PAP |
| **Treasury management and fund flow** | | | |
| Since the other donors (EIB and European Union) use parallel financing for the program it would be a challenge to trace the source | The donors will make disbursement to a separate foreign currency account opened at National Bank or MoFEC notify the program the amount disbursed. | Moderate | PAP |
| **Internal control and internal audit** | | | |
| The internal audit units at proposed implementing entities are not adequately staffed and | Implementing entities will strengthen their internal audit units by filling vacant posts and | Substantial | PAP |

| Risk Description | Proposed mitigation Measures | Significance | PAP/DLI/Other |
|---|---|---|---|
| due to this the Program book of account might not be reviewed | by providing regular capacity building | | |
| IPDC has not maintained comprehensive fixed asset register and affixing of identification number on each fixed asset items | Maintenance of the fixed asset register and affixing of identification number will be expedited | Substantial | PAP |
| **External audit** | | | |
| Delay of implementing entities audit report affect the timeliness of the program auditors.<br><br>IPDC audit reports were delayed | The implementing entities external audit reports will be issued timely<br><br>DLIs focusing on delivery of clean audit reports on time is planned that eventually will be based on IFRS compliant financial statements | Substantial<br><br>Substantial | PAP<br><br>DLI |
| **Procurement** | | | |
| **Procurement Regulations** | | High | DLI |
| IPDC and ARRA have their own procurement directives which do not have a legal framework. The directives are not in line with Government's procurement directive, issued based on Federal Public Procurement and Property Administration Proclamation. | IPDC and ARRA shall adopt a procurement directive and procurement manual based on a legal framework issued by Federal Democratic Republic of Ethiopia which reflects the basic principles of value for money, economy, transparency, fairness, efficiency and integrity. | | |
| **Procurement Capacity** | | High | PAP |
| EIC, MoLSA, IPDC, and ARRA have no experience and capacity in the procurement processing and management of large value contracts of goods, works and services. | Recruit highly qualified and procurement proficient staff in all implementing agencies. Maintain highly qualified contract management staff as appropriate.<br><br>Procurement and contract management staff should be provided with quality and regular training on management of procurement of goods, works and selection of consultants offered at the Ethiopian Management Institute. The staff should also be provided training on contract management | | |
| **Procurement Record Keeping** | | High | PAP |
| Lack of a procurement records management system for safe and secure procurement records keeping and tracking. | Provide the required space and recordkeeping facilities for procurement records filing, establish proper electronic/manual procurement record management system; and offer training to staff on record | | |

| Risk Description | Proposed mitigation Measures | Significance | PAP/DLI/Other |
|---|---|---|---|
| | management requirements and system | | |
| **Procurement Planning** | | High | PAP |
| Procurement planning in all agencies is inadequate. The procurement plans are not updated regularly, not shared with the bidding community and are not used as monitoring and decision-making tools. | All implementing agencies shall prepare and update their procurement plans regularly and have it approved by the oversight body of their respective agencies. implementing agencies shall use the procurement plan as a procurement performance monitoring and management decision tool. | | |
| | Procurement plans shall be shared with the bidding community through easily accessible websites including PPA website<br><br>Implement capacity-building training for management and procurement staff on preparation and use of procurement plans | | |
| **Procurement Processing** | | High | PAP |
| Use of different and modified types of bidding documents which are incomplete and lack basic information related to evaluation criteria, post qualification and special conditions of contract. | All implementing agencies shall use SBDs issued by FPPA or other appropriate bodies like the WB or International Federation of Consulting Engineers. | | |
| | The implementing agencies shall use the open bid as a default procurement method giving equal opportunities to all bidders to bid and to achieve best value for money; | | |
| | Implement capacity building program for procurement staff on preparation of Bidding Documents and Request for Proposals for procurement of goods, works and services | | |
| Though, open competitive bid is the default procurement method as per the directive issued by FPPA, most of the implementing agencies are using the shortlisting, direct contract and limited competition method without any justification. | Implementing agencies shall use the open competitive bid as a default procurement method giving opportunity to all bidders to bid and to achieve best value for money. Use of other methods shall be applied when there is a strong justification for departure | High | PAP |

| Risk Description | Proposed mitigation Measures | Significance | PAP/DLI/Other |
|---|---|---|---|
| | from open and transparent competitive method. | | |
| In all the implementing agencies, the evaluation reports lack the basic information to made decision. There is no proper and standard bid evaluation reporting format. | Review current Bid Evaluation reporting methods and develop a reporting format that provides all relevant evaluation information. | Substantial | PAP |
| There is too much repetitive approach to the market for similar products thereby reducing efficiency and increasing the transaction load on the procurement and financial units of implementing agencies | Introduce Framework Contract for common and repetitively procured items. The implementing agencies need to collect the requirements of user departments on a regular basis and update the procurement plan to avoid repetitive purchases. | Substantial | PAP |
| **Contract Management** | | Substantial | PAP |
| The contract management capacity of the implementing agencies is weak. The agencies do not have a separate unit or qualified staff responsible for managing the contract except in IPDC | Implementing agencies need to recruit sufficient number of qualified contract management staff and ensure that contracts are carried out as per the contract agreement without delay and cost overrun. | | |
| **Internal Control and Oversight** | | High | DLI |
| The internal control system in all agencies is weak with regards to procurement. The focus is on the financial matters rather than procurement. There is no practice of conducting procurement audit by an external body. IPDC and ARRA do not have a Procurement Endorsing Committee, which is the ultimate procurement decision making body in most public procuring entities. | ARRA and IPDC shall establish a procurement oversight body which overlook all procurement activities and that are designated by the Head of the Institutions;<br>Annual procurement audits shall be carried out by independent procurement auditor and the report shall be submitted to the verification body by the respective agencies six months after the completion of each EFY during the implementation of the program | | |
| | The internal audit Directorates of all implementing agencies shall be strengthened to carry out procurement audit and to strengthen the internal control and integrity in procurement | | |

| **Fraud & Corruption and Compliant handling mechanism** | | | |
|---|---|---|---|
| **Risk Description** | **Proposed mitigation Measures** | **Significance** | **PAP/DLI/Other** |
| The working relationship between FEACC and the Office of the Federal Attorney General and Federal Police is still evolving following the transfer of prosecution and investigation mandates from | Sign MoU between FEACC and Office of the Federal Attorney General | Substantial | Other -Result Indicator |

| | | | |
|---|---|---|---|
| FEACC to these bodies for fraud and corruption cases at federal level | | | |
| There is no structure/ staff responsible for ethics and anti-corruption in ARRA and IPDC; | Establish EAC unit and assign fulltime EAC Officer to handle both fraud and corruption and other complaints in ARRA and IPDC. | Substantial | PAP |
| Limited involvement of EAC and PCH units in public resource management related tasks; | Create and enhance the participation of both EAC/PCH units in resource management (build interdepartmental working/ information sharing relationship); | Low | Other |
| All visited organizations do not have a functional system for recording, reporting and information sharing for procurement related complaints. This limits the transparency and ability of the EAC/PCH Officers to conduct analysis to systematically address complaints. | Establish system of recording, reporting and information sharing. | Substantial | Other -Result Indicator |

***Implementation Support Plan***

68. The World Bank fiduciary team will review the implementation progress of the program in the following areas:

- o Review of Reports- These can be quarterly Reports, annual program reports and relevant progress reports on the implementation of PAP and DLIs, and so on
- o Conducting field visits: Fiduciary specialists will participate in supervision/implementation support missions.

69. The objective is to understand:

(a) The achievement of agreed actions and DLIs,

(b) The continuing adequacy of systems,

(c) To monitor risks and mitigation measures,

(d) To monitor covenants and agreements,

(e) To understand the status of implementation capacity.

79. Monitoring Fiduciary Risk: Building initiatives and devise ways to support in challenging areas. The frequency and breadth of fiduciary systems implementation support may be varied in accordance with changes in the risks to the Program. Given the risk profile shown above this program will be reviewed twice a year. In regard to fiduciary aspects, it is expected that as implementation progresses, substantial improvements in procurement and financial management capacities will reduce the risk profile and may afford a reduced supervision schedule. This will be determined by the World Bank's fiduciary systems team in consultation with other pooling partners to monitor compliance with the Financing Arrangement and fiduciary provisions of legal covenants.

80. The management structure and staffing at implementing entities assigned/recruited for the program will manage the implementation of the PforR operation. The World Bank will provide support to the program in addressing emerging implementation issues pertaining to fiduciary aspects. If needed, the World Bank will support the program through technical assistance to develop long-term capacity.

## Annex 6: Summary Environmental and Social Systems Assessment

## Ethiopia Economic Opportunities Program (P163829)

1. The ESSA is part of the World Bank's process in working with the GoE to prepare the program, which will use the PforR and a smaller, complementary IPF as tools for investment; together referred to as the Economic Opportunities Program. From the World Bank side, the Program is thereby flanked by other projects' funding, among others on industrial parks (for example, the Competitiveness and Job Creation [CJC] Project, P143302) as well as refugees/host communities (that is, the Development Response to Displacement Impacts Project [DRDIP]); more details and programs are noted in the PAD.

2. The hybrid PforR/IPF would include a mix of policy actions, investment activities, and technical assistance to address a subset of the Government's Job Compact reforms. The focus on industrialization is intended to create jobs directly and create the conditions for greater labor market access. In parallel, and in line with the government's vision of self-reliance for refugees, a set of reforms and interventions will allow refugees to benefit from job opportunities without putting undue strain on host communities. Such job opportunities may develop within and outside industrial parks with the program not putting any constraints. Also, it shall be highlighted, that, apart from the EPP pilot in the IPF, the program focuses on the provision of economic opportunities, rather than jobs itself. In addition, the project funds activities in promoting industrial parks and supporting its E&S sustainable development, focusing on the Better Work introduction within the parks and sustainable planning support for the further development of industrial parks, including E&S standards.

### Key Institutions and Legal Framework

3. The program will be implemented under the leadership of the EIC, with substantial components to be implemented by the MoLSA and ARRA. Additional tasks will be carried out by IPDC. The EIC promotes and facilitates investments in Ethiopia and its services include promoting the country's investment opportunities; issuing investment permits, business licenses and construction permits; issuing commercial registration certificates and renewals and issuing work permits. ARRA manages all refugee camps in Ethiopia and ensures protection and assistance in partnership with UNHCR and other humanitarian actors. It will also carry out the day-to-day support for refugees benefiting from the new policy on refugees. IPDC develops and administers industrial parks, constructs industrial buildings, leases developed land and buildings, prepares detailed national industrial parks master plans, and serves as the industrial park land bank in accordance with the agreements concluded with regional governments. As such IPDC will be among the key institutions addressing the sustainable development and management of industrial parks. Finally, MoLSA supervises employee's health and safety at workplaces, improves working conditions and environment, promotes efficient and equitable employment services, and maintains developmental social welfare of citizens. As such, it is the key institution in ensuring sound labor policies within and outside industrial parks.

4. These four institutions are embedded into a substantial legal framework regarding E&S impact mitigation policies; starting with the Ethiopian constitution. Further details are regulated in the GTPs, the Environment Policy of Ethiopia including Proclamation No. 295/2002 on the Establishment of Environmental Protection Organs, the Environmental Pollution Control Proclamation (No. 300/2002), the Prevention of Industrial Pollution Regulation Proclamation 159/2008), the Water Resources Management Proclamation (197/2000), the Solid Waste Proclamation (513/2007), the Environmental Impact Assessment Proclamation (299/2002), the Proclamation on Expropriation of Land for Public Purposes and Payment of Compensation (455/2005 and others), the Proclamation on Rural Land Administration and Land Use (456/2005), 22 ratified ILO conventions including protection of freedom of association, prohibition of forced labor, child labor, and discrimination as well as a convention on occupational safety and health. The

Labor Proclamation No. 377/2003 is considered progressive, with further follow-up directives on OHS. In addition, the National Employment Policy (2016), National Operational Safety and Health, National Social Protection Policy and Private Organization Employees' Pension Proclamation No. 715/2011 comprise the institutional and legal framework for labor. Substantive regulations also encompass the support for ethnic and vulnerable groups and proactive addressing of gender inequalities, including Gender mainstreaming strategy and guideline (2010). Proclamation no. 213/2000 (revised family code) ensures child protection and just recently a National Social Protection Strategy of Ethiopia (2016) has been developed.

5. While legal regulations are encompassing a large part of potential issues, it is assessed that implementation and enforcement of mentioned regulations is not yet satisfying. Meanwhile, the assessment of current capacities cannot be extended to all aspects of the Economic Opportunities Program, resulting from its innovative character, that is, the noted institutions will have to adjust to new roles and activities in the process of the Program rollout (and on a larger scale the rollout of the GoE Jobs Compact Program including the nine pledges) and such changes can only be extrapolated from current performance with a considerable margin of error. Coordination needs between ARRA, EIC, MoLSA, IPDC, and local government units add to the risk of insufficient capacity. Thus, the Program E&S risk provision will closely focus on the establishment of relevant institutional capacity as it implements related activities.

6. As part of addressing capacity gaps and safeguards system strengthening, DLI 6 of the Program focuses on the need to strengthen E&S management systems, including establishment of institutions on the local level. Safeguards focal persons/staff at the national, regional and city levels is important for the preparation and endorsement of risk management system guidelines and communication strategies for the Program. The system needs to be resourced, capacities improved by trainings, and respective (site-specific) procedures established or updated. Following the project cycle, implementation of safeguards-measures as well as annual audits will be necessary. To address the specific sensitivity of refugee influx into industrial park neighborhoods, NRCs, modelled based on experiences by the World Bank-supported DRDIP, shall address the gap in host community—refugee relations. Expansion of ARRAs/UNHCRs support activities is further necessary.

**Risks and Mitigation Measures**

7. The envisaged development of policies and implementing activities is, as noted, exploring uncharted territory and though there are experiences in different areas (industrial park operations, out-of-camp-program for refugees, host community support programs), none of these programs has experience with the comprehensiveness of the Economic Opportunities Program approach in terms of cooperation (industrialization and refugees), scale (from policies to communities and industrial parks), institutional cooperation (federal to local), and geography (with effects potentially on the whole Ethiopian territory). The PforR lending tool for such a program is therefore highly risky; while it is understood that to address the issue of refugees, risk-appetite is necessary if urgent needs of progress should be achieved.

8. Risks associated with the topics have been assessed based on the core principles to be assessed as part of the ESSA.

**Core Principle 1 General Principle of Environmental and Social Management**

9. The ESSA assesses that the policy framework to implement this PforR is overall adequate. Gaps are in the implementation and enforcement of such framework overall and the limited E&S capacity by the implementing institutions resulting from limited resources (staffing, logistics), limited experience, and the need for cooperation. The resulting risks are therefore that identification of issues is delayed and that implementation is not as effective as necessary. The ESSA also notes the risk of legacy issues resulting from pre-program activities. Mitigation measures, therefore, need to focus on strengthening the individual

capacity of each institution, the coordination between the institution, and corrective actions in case of legacy issues.

**Core Principle 2 Natural Habitats and Physical Cultural Resources**

10. The applicability of this core principle is limited. Any plans developed under the PforR need, though, to take it into account to identify and mitigate any risks for natural habitats and physical cultural resources. The program will not undertake any activities with significant impacts on natural habitats and physical cultural resources. In case audits identify legacy issues for specific sites with significant impacts which cannot be rectified, then the program will restrain to engage in such sites. In general, the same assessment applies as for core principle 1: established policy framework but limited implementation capacity. The major need is in developing a suitable screening mechanism for eventual subprojects/sites. Minor to moderate risks would result from not applying the respective mechanism.

**Core Principle 3 Public and Worker Safety**

11. One of the major aims of the program is to address working conditions in industrial parks as outlined in the Results Framework. The ESSA has assessed that the legal framework regarding public and worker safety is in general adequate; however, the current enforcement in operational industrial parks is not. This extends to the monitoring and supervision of noted policies by the respective agencies. This goes hand in hand with a lack of awareness. Specifically, women and children have been identified as vulnerable in regard to this core principle. The issues need to be addressed with capacity building (staffing, training) and the establishment of a strong monitoring system. While addressing these risks is a core target of the program, they may be aggravated by the complementary target of increasing job opportunities and resulting movement of refugees and Ethiopians toward industrial parks and other economic areas. Special attention needs to be given to the specific vulnerability of women (including safety) moving toward and working in industrial parks.

**Core Principle 4 General Land Acquisition**

12. As with core principle 2, the applicability of core principle 4 is limited. It needs, though, to take into consideration any plans developed under the Program, which may result in land acquisition. The program will not undertake any physical activities involving involuntary land acquisition. In case audits identify legacy issues for specific sites, such impacts need to be rectified and if deemed not rectifiable, then the program will restrain to engage in such sites. Issues in general are lack of consultations and GRMs, compensation for impacts on untitled and community lands, inadequate provision of relocation options, and missing attention to livelihood restoration. It will be necessary to strengthen community consultations, including for the development of planning documents as envisaged. In case necessary for the rectification of legacy issues, the noted points need to be addressed and reported in writing.

**Core Principle 5 Indigenous[20] Peoples and Vulnerable Groups**

13. The major vulnerable group by the program are refugees; with the core program aim to improve their situation and reduce respective vulnerability; including by the change of respective policies from supported camp accommodation to self-sustained, non-camp refugee hosting. Within this vulnerable group, additional differentiations need to be made, with women and children being most vulnerable, facing

[20] The term 'indigenous' as used in the section title to refer to the World Bank's OP 9.00 is, as a term, not used in the Ethiopian context; rather the underlying concept of considering characteristic program impacts on the most vulnerable groups of society is applied. Accordingly, the document uses the term vulnerable groups in the detailed assessment outlined under this section required by OP 9.00

enhanced challenges including trafficking, GBV and sexual exploitation and abuse. It is furthermore necessary to differentiate the context and address vulnerabilities of host communities, which may, as in Gambella, be overwhelmed by refugee migrations mixed with pastoralist movements. All of this requires high capacity by implementing agencies, which the ESSA considers necessary to be enhanced in comparison to the current status; as noted above resulting from inadequate staffing and logistics as well as missing experience. The program needs to ensure adequate consultations, monitoring, and protection mechanisms to address induced risks as well as overall reputational risks resulting from association. It is furthermore suggested to pro-actively engage in gender-equity-supporting measures as the support for safe work environments within but also around industrial parks. The complexity of vulnerability requires a multidimensional protection and support approach, including protection offices by ARRA as part of DLI 6, actions noted in the PAP-required action plan, non-discrimination as part of DLI3/Better Works by IPDC/EIC, respective contract clauses in the EPP pilot, and so on (see below).

**Core Principle 6 Social Conflict**

14. The program in general and some of its targets in specific are considered a substantial risk in regard to social conflict. While the Program's aim is to equally benefit refugees and Ethiopians alike by changing legislation and supporting the GoE industrialization policy, resulting in additional jobs, during the process social conflicts need to be addressed. This encompasses pressure on public resources resulting from internal migration, cultural and communication barriers between communities, legacy issues from violent conflicts in original countries and following encampment aggravating current conflicts, and so on. Risks range from induced risks due to the support for change of policy and provision of opportunities to reputational risks resulting from World Bank association with refugee engagement overall. It is necessary to pro-actively address the noted conflict issues and the ESSA assesses that existing experience by involved institutions outside of camps is limited; although basic activities by ARRA along the existing out-of-camp policy have been conducted. Lessons-learned can be taken from the World Bank-funded DRDIP, addressing issues between host communities and refugees in the current camp areas. While it is expected that pledges within the CRRF not covered by the Economic Opportunities Program will also play a major role in addressing such issues, due to potential issues of sequencing, the Program will need to support risk mitigation until other pledges may take over.

**Mitigation Measures**

15. As noted, while most of these risks are not directly to be associated with activities financed via the Economic Opportunities Program, the development of policies, plans, and provision of opportunities as envisaged by the government's program link the PforR Program, and with it, the World Bank to such risks. Accordingly, the Economic Opportunities Program has designated core components to address the risks in DLIs 3, 4, and 6.

16. DLI 3 focuses on the introduction of Better Work; a joint ILO and IFC program that provides assessment, advisory, and training services to factories to improve working conditions and increase compliance with international labor protection standards (child labor, working conditions, and so on) and local labor law.

17. DLI 4 focuses on feasibility studies for private sector-led participation in industrial parks, which include E&S due diligence in addition the assessment of an integrated urban development master plan that includes the industrial park and identifies any gaps and recommendations on issues such as housing, waste management, and transport connectivity. To enable the studies to also encompass E&S assessments, one requirement of the PforR is to ensure a strengthened E&S system in the first year, including enhancing respective strategies and procedures. The feasibility studies will not only look at the construction of new parks, but also at the socially and environmentally sustainable management of the existing parks and

eventual adaptations necessary to reach international standards as demanded by global industrial clients. The assessments will look at all aspects covered by an ESIA as outlined in the Ethiopian regulations and the E&S system demanded by DLI 6. This will encompass, among others, waste management and pollution, OHS, GRM, mitigation of vulnerabilities, adequate sanitary and resting facilities, options of adequate housing in the IPs or its neighborhood, externalities/impacts on communities, and so on. Implementation will be conducted by a reputational firm. It will be the task of the feasibility study to prepare for the future; which also encompasses due diligence of all eventual current issues which require rectification to allow sustainable management moving forward.

18. The most comprehensive DLI on addressing above risks is DLI 6, which focuses on the establishment of an E&S risk management system which addresses said risks in the program implementing institutions (this includes staffing, trainings, and E&S management systems); [21] it encompasses staffing requirements, the establishment of local facilitation and support branches by ARRA for refugees; the establishment of local NRCs with representatives of refugees, host communities, local government, and ARRA; small-scale community interventions with a volume proportional to the influx of refugees; and E&S audits including corrective action plans to be implemented during program implementation.

19. Finally, the smaller IPF will support a pilot project including lessons-learned reports and technical assistance where necessary.

### Risk Ratings

20. The new and innovative character of the Program has resulted in rather unusual extensive measures for a PforR, which shall enable the Program to reduce high risks to residual substantial risks. The substantial risk also extends to the noted need for coordination among the different institutions for successful program implementation from an E&S perspective. It shall be noted that the ESSA does not address political risks of this program which has been assessed by a political economy study of the task team. The Program will need continuing support from the World Bank throughout its implementation and regular reporting from client side to ensure early warnings in case of issues. Three specific items shall be highlighted to be integrated into the PAP with details outlined in Chapter 6 of the ESSA.

**Table 6.1. E&S PAP items**

| Activity | Timeline | Lead Institution |
|---|---|---|
| Development of a **communication strategy** for the program, incorporating a detailed stakeholder assessment and context specific tools | 3 months after effectiveness | EIC |
| Establishment of a **GRM,** including provisions for OSSs, MoLSA hotlines, and female workers' counseling focal points. | 9 months after engagement in each respective industrial park | MoLSA |
| Develop and implement **gender and protection action plan** for vulnerable people, including children and women with a focus on discrimination and GBV and related site-specific SOPs. This shall include the establishment of a women friendly-environment, including a child care center per EOP addressed industrial park and a safe transportation plan for women working in industrial parks | 1 year from effectiveness | EIC |

[21] As noted in the details below, the institutions have different regulations for their current works and follow Ethiopian federal E&S laws and regulations. The aim of the systems establishment will be (a) to combine and strengthen existing provisions into a single, institution-specific document for each institution and (b) extend its scope to the additional activities to be conducted along the Economic Opportunities Program

81. Thus, the final risk rating can be presented as shown in table 6.2

**Table 6.2. E&S Risk Ratings**

| Detailed E&S Risk Ratings | Original Social Risk | Original Environmental Risk | Mitigation Measures | Residual Social Risks | Residual Environmental Risks |
|---|---|---|---|---|---|
| Key Results Area/Component 1: Refugee-related employment and protection | *High* | *High* | *DLI 3+DLI 6* | ***Substantial*** | ***Substantial*** |
| • Employment and Training | *High* | *Moderate* | *DLI 3+DLI 6* | *Substantial* | *Moderate* |
| • Business formalization and entrepreneurship | *High* | *High* | *DLI 6 (NRC, Guidelines)* | *Substantial* | *Substantial* |
| • Host community integration | *High* | *High* | *DLI 6 (NRC+Com.Int.)* | *Substantial* | *Substantial* |
| • Vulnerability I: Refugees | *High* | *N/A* | *DLI 6 (Support offices)* | *Substantial* | *N/A* |
| • Vulnerability II: Gender | *High* | *N/A* | *DLI 6 (Support offices + NRC)* | *Substantial* | *N/A* |
| • Vulnerability III: Others | *Substantial* | *N/A* | *DLI 6 (Support offices + NRC)* | *Substantial* | *N/A* |
| Key Results Area/Component 2: Improving the broader investment climate | *Low* | *Low* | *DL* | ***Low*** | ***Low*** |
| Key Results Area/Component 3: Improving labor productivity | *High* | *High (OHS)* | *DLI 3, DLI 6 (Guidelines)* | ***Substantial*** | ***Substantial*** |
| Key Results Area/Component 4: Improving Sustainability of Industrial Parks | *High* | *High* | | ***Substantial*** | ***Substantial*** |
| • Ensuring E&S compliance of industrial parks, including ensuring the wastewater treatment plants are operating continuously in compliance with the national environmental standards | *High* | *High* | *DLI 4+DLI 6* | *Substantial* | *Substantial* |
| • Preparing detailed E&S assessment of existing | *Substantial* | *Substantial* | *DLI 4+DLI 6* | *Moderate* | *Moderate* |

| Detailed E&S Risk Ratings | Original Social Risk | Original Environmental Risk | Mitigation Measures | Residual Social Risks | Residual Environmental Risks |
|---|---|---|---|---|---|
| industrial park projects | | | | | |
| • No follow-up on the established ESIAs | *High* | *High* | *DLI 6 (CAP)* | *Substantial* | *Substantial* |
| • E&S legacy issues from industrial park construction identified during project implementation | *High* | *High* | *DLI 6 (Audit + CAP)* | *Substantial* | *Substantial* |
| • Effect on urbanization, including integrated planning and management of resources and waste | *High* | *High* | *DLI 4+DLI 6* | *Substantial* | *Substantial* |

## Annex 7: Systematic Operations Risk Rating (SORT)

## Ethiopia Economic Opportunities Program (P163829)

**Table 7.1. Summary SORT Risk Assessment**

| **Systematic Operations Risk-Rating Tool** | |
|---|---|
| **Risk Category** | **Rating (High, Substantial, Medium, Low)** |
| 1. Political and governance | H |
| 2. Macroeconomic | M |
| 3. Sector strategies and policies | S |
| 4. Technical design of project or program | M |
| 5. Institutional capacity for implementation and sustainability | S |
| 6. Fiduciary | H |
| 7. Environment and social | S |
| 8. Stakeholders | S |
| 9. Other | S |
| **OVERALL** | **H** |

**Table 7.2. Detailed Appraisal of Risks**

| Risk Type | Risk Description | Gross Risk Rating | Mitigations | Residual Risk Rating |
|---|---|---|---|---|
| **Political and governance** | Deteriorating stability, political challenges and /or other security incidents in Ethiopia that could undermine political commitment, compromising the PDO. | **High** | • Anticipate fragility/political changes/full range of risks: active risk management, political economy assessments.<br>• Build government capacity to deliver on refugee reforms.<br>• Conflict-sensitive approaches (for example, conflict analysis in refugee hosting communities) to inform program activities. | **High** |
| **Macroeconomic** | External and domestic economic risks that may derail proper preparation, implementation, and achievement of results. Specific risks include severe forex shortage, financial repression and lower scope for external borrowing, and risk of disorderly | **Substantial** | • The midterm review process allows for course corrections in the event of a deterioration of the macroeconomic situation of the country. Furthermore, some project interventions are phased, with the goal of piloting then scaling up over time. | **Moderate** |

| Risk Type | Risk Description | Gross Risk Rating | Mitigations | Residual Risk Rating |
|---|---|---|---|---|
| | macroeconomic adjustment. | | | |
| **Sector strategies and policies** | Loss of momentum to implement proposed refugee reforms or policy shift on industrialization/job creation agenda | **High** | • Engagement by the World Bank on the broader CRRF agenda, including complementary technical assistance support provided to the CRRF Steering Committee.<br>• Engagement by the World Bank on the broader industrialization and job creation agenda through existing portfolio of operations and analytical work (see annex 10 for further detail). | **Substantial** |
| **Technical design** | Achievement of the PDO is adversely affected by factors related to the technical design of the Program | **Substantial** | • Use of government systems under PforR instrument allows for greater flexibility to enable achievement of the PDO.<br>• Staffing and adequate resourcing of the PCU.<br>• Use of IPF instrument to help manage risks and capacity constraints by piloting initiatives that can be scaled up over time. | **Moderate** |
| **Institutional capacity for implementation and sustainability** | Risks related to the capacity of the government to implement activities, taking into account the institutional capacity of the implementing agencies, implementation arrangements (including PCU), and M&E arrangements | **High** | • Institutional and capacity building provided to the GoE.<br>• Additional technical assistance and World Bank supervision to be provided as needs arise to be financed through the IEO-MDTF.<br>• Governance arrangements (that is, Steering Committee to oversee GoE coordination) are in place.<br>• Continuous consultation process between the GoE and World Bank.<br>• Awareness raising across key stakeholder groups. | **Substantial** |
| **Fiduciary** | Risks that funds will not be used to achieve value for money with integrity in delivering | **High** | • Full fiduciary risk assessment conducted with agreed mitigating actions.<br>• Fiduciary action plan in place to mitigate risks. | **High** |

| Risk Type | Risk Description | Gross Risk Rating | Mitigations | Residual Risk Rating |
|---|---|---|---|---|
| | sustainable development | | • Actions include capacity building, enforcing compliance standards, M&E system, and conducting annual external audits. | |
| **E&S** | Industrial parks fail to achieve required E&S standards.<br><br>Working conditions within industrial parks compromise worker safety. | **High** | • Provision of trained, specialist staff in all the GoE implementing institutions to enhance capabilities on gender, social protection, and environment.<br>• Establishment of systems in the implementing institutions, including targets for staffing, trainings, E&S management systems, consequent audits, and, if necessary, implementation of related corrective actions during program implementation.<br>• E&S management systems shall follow the guidelines developed under UIIDP adjusted to institutional needs and activities.<br>• Mitigation of refugee vulnerability by the establishment of facilitation and support branches by ARRA<br>• Management of refugee-host community relations by establishing NRCs with representatives, including refugees, host communities, local government, and ARRA.<br>• Provision of funds for small-scale community interventions proportional to the influx of refugees.<br>• 'Better Work' standards implemented in all industrial parks.<br>• MoLSA inspection reports, in collaboration with Better Work, at factory and systemic levels. | **Substantial** |

| Risk Type | Risk Description | Gross Risk Rating | Mitigations | Residual Risk Rating |
|---|---|---|---|---|
| | Increased tensions over jobs, services, and/or natural resources escalates conflicts between groups. | | • Action plan for vulnerable people, including children and women, focusing on discrimination, GBV and related site-specific SOPs.<br>• The program will not undertake any physical activities involving involuntary land acquisition.<br>• GRM, including OSSs, MoLSA hotlines, and female workers' counseling focal points. | |
| **Stakeholders** | Risks linked to aligning the priorities of a broad set of stakeholders both within government and the donor community. Opposition from stakeholders arising from overlapping mandates. | **High** | • Governance arrangements in place which allows for formal coordination with the GoE and Jobs Compact development partners<br>• Broad consultation with all stakeholders during preparation and implementation.<br>• An established communications plan | **Substantial** |
| **Other (refugee protection)** | Changes in refugee protection framework resulting in violations to refugee rights | **High** | • Coordination with the CRRF secretariat.<br>• Continual feedback and monitoring from UNHCR on refugee protections.<br>• Social safeguards in place, including GRMs, NRCs, small-scale community interventions. | **Substantial** |

## Annex 8: Program Action Plan

## Ethiopia Economic Opportunities Program (P163829)

| No. | Action Description | DLI* | Covenant* | Due Date | Responsible Party | Completion Measurement |
|---|---|---|---|---|---|---|
| 1 | Develop and pilot an EPP package to enable refugee access to economic opportunities which includes trainings, job placement, and mobility assistance | **1** | Y | 1 year from effectiveness | EIC in coordination with ARRA and MoLSA | Completion of procurement of EPP package |
| 2 | Working procedures and/ or directives (if applicable) to operationalize the pledges relevant to the Economic Opportunities Program (right to work, out of camp, documentation) adopted | **1** | Y | 9 months from effectiveness | ARRA in consultation with the EIC | Adoption of working procedures and/or directives (if applicable) |
| 3 | Institutional strengthening for targeted investment promotion and B2B export matchmaking activities based on investment promotion and B2B export matchmaking strategy | **2** | N | 1 year from effectiveness | EIC | Approval of strategy by the Investment Board<br><br>Hire or reassign account managers for each priority sector |
| 4 | Implement an investor tracking system | **2** | Y | 6 months from effectiveness | EIC | Account managers implementing system to manage investors for their portfolios |
| 5 | Develop a financial and economic modeling tool to assess financial and economic viability and return on investment of each industrial park development/investments | **4** | N | 18 months from effectiveness | IPDC in consultation with the EIC | Report summarizing financial and economic modeling tool |
| 6 | Develop environmental compliance standards and systems for industrial parks | **3/4** | Y | 1 year from effectiveness | EIC | Compliance manual completed |
| 7 | Gaps identified in urban masterplans for industrial park locations communicated to the relevant institutions | **4** | Y | End of Years 1–6 | EIC | Proof of communications between the EIC and |

| No. | Action Description | DLI* | Covenant* | Due Date | Responsible Party | Completion Measurement |
|---|---|---|---|---|---|---|
| | (Ministry of Urban Development and Construction) and regional government. | | | | | relevant institutions |
| 8 | Establish functional M&E system to monitor and track program interventions, outputs, and results, including putting in place competent staff and have capacity-building support to all Program management staff | All | Y | 9 months from effectiveness | EIC in consultation with ARRA, MoLSA, IPDC | M&E staff hired in the PCU and M&E systems fully operational |
| 9 | Develop adequate POM, including communications strategy incorporating a detailed stakeholder assessment and context specific tools | All | Y | 3 months from effectiveness | EIC | POM completed and submitted |
| 10 | Chart of accounts and budget code set up and fiscal year: Specific budget code for the program will be given to budgeted expenditure. The chart of accounts of the implementing entities will be redesigned or mapped to incorporate specific account code to capture transactions related to the Program. Since the program will follow EFY, ARRA will align the Program's budget and expenditure with government fiscal year | **5** | Y | Annually | EIC | Chart of accounts and budget code established. EFY is used |
| 11 | Disclosure: Annual fiscal information (budget, budget execution and audit report) of all implementing entities as well as for the Program will be disclosed on each institutions website and/or the EIC's website | 5 | Y | Annually | EIC in consultation with ARRA, MoLSA, IPDC | Web site with disclosed fiscal information |
| 12 | Improve the IPDC accounting and MIS system: IPDC will have ERP solutions | 5 | Y | July 7, 2020, and thereafter annually | IPDC | Progress report submitted by IPDC. In addition, |

| No. | Action Description | DLI* | Covenant* | Due Date | Responsible Party | Completion Measurement |
|---|---|---|---|---|---|---|
| | maintained or installed and financial statements are prepared from the system which links with or includes internal control systems like fixed asset register and inventory | | | | | published year ended July 7, 2020, and subsequent years financial statements are prepared from ERP system |
| 13 | Vacant Internal audit posts: Implementing entities will strengthen their internal audit units by filling vacant posts and by providing regular capacity building | 5 | Y | Annually at the end of each EFY | EIC in consultation with ARRA, MoLSA, IPDC | Status report on internal audit unit with focus on vacant posts and capacity-building activities will be provided |
| 14 | Establish functional Ethics and Anti-Corruption / complaint handling structure and assign fulltime EAC Officer to handle both fraud and corruption and other complaints in ARRA and IPDC. | **5** | Y | December 31, 2019 | ARRA and IPDC | The system is functional when the manpower is assigned and staff are given the authority and resources to compel cooperation of all departments to ensure the implementation of anticorruption reforms, address all other complaints, and establish an appropriate recording and reporting system to enhance the effectiveness of the system. |
| 15 | Establishment of a GRM, including provisions for OSSs, MoLSA hotlines, and female workers' counseling focal points | 6 | Y | 9 months from effectiveness | EIC in consultation with IPDC, MoLSA, ARRA | GRM fully functional |
| 16 | Develop and commence implementation of a gender and protection action plan for vulnerable people, including children and | 6 | Y | 1 year from effectiveness | EIC in consultation with ARRA, MoLSA, IPDC | Gender and protection action plan is developed and implementation |

| No. | Action Description | DLI* | Covenant* | Due Date | Responsible Party | Completion Measurement |
|---|---|---|---|---|---|---|
| | women with a focus on discrimination and GBV and related site-specific SOPs. This shall include the establishment of a women-friendly environment, including a child care center per EOP addressed industrial park and a safe transportation plan for women working in industrial parks | | | | | of action(s) has commenced |

## Annex 9: Implementation Support Plan

## Ethiopia Economic Opportunities Program (P163829)

### Main Focus of Implementation Support

| Time | Focus | Skills Needed | Resource Estimate | Partner Role |
|---|---|---|---|---|
| First twelve months | Refugee-related employment and protection (setting up EPP package) and addressing labor market integration challenges.<br><br>Targeted investment mobilization and export marketing expertise<br><br>Coordinating implementation of Better Work Program and Industrial Park Sustainability<br><br>Financial modeling tools for industrial parks, private sector participation in parks<br><br>Setup of E&S safeguards mechanisms<br><br>Program management, M&E | Refugee expert, labor/jobs specialist<br><br>Investment climate/industry expert<br><br>Social Protection Specialist<br><br>Industrial park/public-private partnership expert<br><br>E&S safeguards specialists<br><br>Task team leaders, M&E expert | US$400,000 | DFID: Provides co-financing to support the supervision and activities of the Program<br><br>ILO: Supports with the Better Work arrangements and labor productivity issues.<br><br>European Union/EIB: Jobs Compact Partners supporting linked projects<br><br>UNHCR: Overall advice and coordination on the refugee protection agenda, especially with regard to social safeguards mechanism concerning refugees |
| 12–48 months | Same as above | Same as above | US$200,000 | |

### Task Team Skills Mix Requirements for Implementation Support

| Skills Needed | Number of Staff Weeks | Number of Trips |
|---|---|---|
| Program management and M&E | 25 | 4 |
| Refugee expert | 15 | n.a. |
| Labor/jobs specialist | 15 | 4 |
| Investment Climate/industry expert | 10 | 3 |
| Social protection specialist | 10 | n.a. |
| Environmental specialist | 3 | n.a. |
| Social safeguards specialist | 10 | n.a. |
| Procurement and financial management | 3 | n.a. |

| | | |
|---|---|---|
| Industrial park/ public-private partnership expert | 10 | 3 |

## Role of Partners in Program Implementation

| Name | Role |
|---|---|
| DFID | Co-financing the Economic Opportunities Operation and providing additional resources to the Government's Jobs Compact |
| European Union | Will support the Jobs Compact with grant financing, indicatively through a Sector Reform Contract (sector budget support). This will likely focus on (a) infrastructure development, (b) refugee integration, (c) productivity and decent work, (d) investment climate, (e) investment promotion, and (f) domestic revenue mobilization |
| EIB | Is expected to finance a parallel investment project based on the ongoing prefeasibility study being carried out by the Government with the support of DFID |
| ILO | Will implement the Better Work Program |
| UNHCR | Overall guidance and coordination on the refuge agenda |

**Annex 10: Complementary Projects, Lessons Learned, and Links with Current Operations**

**Ethiopia Economic Opportunities Program (P163829)**

**Complementary World Bank Group and Donor Partner Projects**

1. The Economic Opportunities Program is part of a much broader engagement by the World Bank and other development partners. The Program will work synergistically with the main complementary projects which are discussed in table 10.1 and apply lessons learned from linked engagements.

**Table 10.1. Complementary Projects**

| Project | Brief Description | Linking Mechanism |
|---|---|---|
| **World Bank Group Private Sector/Industrialization Projects** | | |
| CJC IPF (P143302, US$250 million) | Ongoing pilot skills program at Bole Lemi I industrial park | • Lessons learned support Productivity and Quality of Jobs DLI |
| Trade Logistics IPF (P156590, US$150 million) | Enhances the performance of the Ethio-Djibouti corridor through improvements in operational capacity, efficiency, and range of logistics services at the Modjo Dry Port | • Supports improvement of Investment Climate DLI |
| IFC Investment Climate Advisory Project[22] (US$200 million) | Supports reforms to improve the investment climate and investment promotion | • Supports Investment Climate DLI and supports technical assistance to the EIC |
| National Quality Infrastructure Development Project IPF (P160279, US$50 million) | Focuses on strengthening the systems and institutions to be in line with international requirements for quality and standards | • Improves the delivery of quality assurance services to enterprises in targeted sectors. Supports overall development of private sector. |
| IFC Ethiopia Green Industrialization Advisory Program (600316) | Helps address environmental sustainability risks from the GoE's ongoing industrial parks development program. | • Supports the sustainability of industrial parks results area |
| Hawassa Industrial Park Community Impact Evaluation (P166412) | Impact evaluation that will generate estimates of the impact of industrial park labor opportunities on worker wellbeing in Hawassa | • Overall implementation will be informed by the findings of the impact evaluation, which focuses on measuring welfare impacts for employees, their origin households, and communities. This will especially focus on the impacts for women, who make up the bulk of garment sector employees. |
| Small Medium Enterprise (SME) Finance Project IPF (P148447, US$200 million) | Provides access to finance to SMEs and supports financial institutions to introduce financial products that serve SMEs | • Supports objective of creating economic opportunities for Ethiopians and SME links agenda |
| **Other World Bank Projects** | | |
| Urban Institutional and Infrastructure Development Project | On a demand basis, urban master planning | • PAP item requires all industrial parks to have a masterplan in associated urban centers incorporating refugee issues.<br>• Supports industrial park sustainability DLI |

[22] This is an umbrella program with multiple sub projects that address various aspects of the investment climate in Ethiopia

| | | |
|---|---|---|
| PforR (P163452, US$400 million) | | |
| Development Response to Displacement Impacts Project IPF (P164100, US$100 million to the GoE) | Improves access to basic social services, expands economic opportunities and enhances environmental management for communities hosting refugees | • This project helps manage hosting issues in smaller communities where some refugees may obtain economic opportunities.<br>• Supports Refugee-related Employment and Protection DLI. |
| General Education Quality improvement (additional finance, to be determined) | Would support access to education for refugees | • Supports access to basic services for refugees |
| **Development Partner Projects** | | |
| DFID-supported Private Enterprises Program Ethiopia (PEPE) and Ethiopia Investment Advisory Facility | PEPE<br>• Improves labor market systems and cotton production to create a sustainable industry with strong backward links.<br>• Support to the GoE's flagship Hawassa industrial park, which will create 60,000 jobs in the apparel sector. Includes a skills development component.<br><br>Ethiopia Investment Advisory Facility<br>• Strengthens the effectiveness of growth enhancing public investment in Ethiopia to promote outward orientated, manufacturing-led inclusive growth | • Supports Productivity and Quality of Jobs and Investment Climate DLI<br><br>• The Investment Climate Facility financed studies used in project design. |
| European Union's TTF | Supports export competitiveness | • Supports Investment Climate DLI |
| ILO's Industrial Relations Program | Improving working conditions and labor management | • Supports Productivity DLI |
| Dutch Agribusiness Project | Exploring the possibilities of providing jobs for refugees with existing Dutch private sector in horticulture and other sectors. | • Supports EPP pilot which will provide job placement assistance |

## Annex 11: Lessons Learned from World Bank Group Projects

## Ethiopia Economic Opportunities Program (P163829)

### Industrial Parks

(a) **There is a need for well-integrated, coherent master planning for industrial park development** that takes into account the area or city's local development plan, that includes effects and demands on natural resources, housing availability, transport connectivity, utility and municipality service capacity, and labor influx, social demographics and dynamics;

(b) **Industrial parks need to create economic spillover and externalities as much as possible so that the developmental and economic effects from industrial parks enable broader economic transformation, productivity, and SME growth**. There needs to be planning and parallel interventions to create links with the local economy and the surrounding community that will enable domestic firms to acquire technologies and knowhow from the more FDI–focused industrial parks. Micro and small enterprises thrive by providing needed services and goods and when the local community benefits from jobs and other economic opportunities.

(c) **Industrial park development should consider long-term effects in terms of resource use and E&S effects.** Waste management (solid and liquid, industrial and nonindustrial) should be given utmost attention at the planning development, and operations stage. As much as possible, efficient use of resources, opportunity for recycle and reuse, symbiotic opportunities with other industries, and where possible eco-friendly initiatives should be planned and implemented to avoid significant adverse effects in the long run.

(d) **Industrial parks should be developed based on demand, as demonstrated in the government approach for the development of the Hawassa industrial parks.** This ensures that the park is developed fit for the intended purpose, and becomes operational and productive as soon as completed. There is a risk that parallel development of multiple industrial parks may not have adequate investors in the pipeline and may not be fully occupied upon completion, incurring opportunity cost for the government and overstretching limited financial and institutional resources.

(e) **Beyond the initial investments of the government to demonstrate its commitment, industrial park development should be a private sector business venture as much as possible**, with the government role being to provide the needed infrastructure and services up to the boundaries or gates of the industrial park site and the private developer developing the industrial park itself, including bringing in investment and managing the operations. This approach lessens the financial and management burden on the government and ensures that there is a business case for the investment, efficiency in management and operation of the industrial park.

### Investment Climate

2. The multi-donor-funded Ethiopia Investment Climate Phase I Program provides important insights into the constraints faced by the private sector to realize investment. The lessons learned from this program have significantly informed the technical assessment for the Investment Climate results area of the Economic Opportunities Program Operation. The Trade Logistics project focuses on addressing one of the biggest and most costly business constraints in the country. Key lessons taken are

(a) Ethiopia has significant investment potential and opportunities for investment in many large and rapidly growing sectors that include government priority areas such as manufacturing (agro-processing, textile and garment, leather and leather related products, pharmaceuticals, light machineries manufacturing) as well as agriculture and service sectors. Among others, the manufacturing sector's competitive edge is driven by the availability of abundant and inexpensive workforce, the country's geographic location, the opportunities available in creating backward links, the country's preferential access to key global markets including the US, European Union, Japan and other developing countries, and the government's strong investment commitment and sense of direction. These opportunities are furthermore facilitated by the large-scale development of industrial parks in many parts of the country.

(b) However, the investment and business environment poses significant investment challenges, especially on trade logistics and customs procedure; labor relations and retention; access to finance (foreign loan (debt to equity ratio), suppliers credit, and so on); regulatory transparency and predictability, and coordination among government agencies.

(c) Despite the government's reform efforts to improve the investment climate, including around investment facilitation, challenges remain.

- There needs to be a clear, structured, systematic, and targeted approach for investment promotion and facilitation and for export marketing.

- The EIC will need to develop institutional capacity such as technical sector specific competency and investment generation, to inform its outreach, lead generation and facilitation efforts.

- The EIC´s aftercare unit presently focuses on investors at the establishment stage. It provides support services to solve issues such as work permits, access to electricity, land and the like. Though in process, it does not yet have a systematic investor tracking system and systemic investors' grievance handling mechanisms (often known as SIRM – Systematic Investors Response Mechanism) put in place that will facilitate and track the aftercare services provided to investors and to identify and address complaints/issues that arise from government.

3. Moreover, the Program will build on the following lessons from the Economic Opportunities for Jordanian and Syrian Refugees Program, which was designed to address similar challenges as the Economic Opportunities Program and is currently under implementation:

(a) PforR is a sound instrument to support a complex set of government commitments that will take time to implement, especially if the desired outcomes are clear but the implementation modalities are less clear.

(b) The PforR has proved to be adaptable and has led to a very productive dialogue around delivering the DLIs with many "fine tuning" adjustments.

(c) Maintaining a strong balance between measures that support the general Jordanian workforce and refugees is very important.

(d) In the results area of economic opportunities for refugees (assimilating refugees into the labor market) the degree of support required is significant and was underestimated in preparation.

(e) Government commitments should only cover areas where they can deliver – they can issue permits to engage in formal employment, but cannot guarantee a private sector job. In the investment area, they cannot guarantee private sector investment.

(f) Focusing on value chains in sectors which match the skills profile of refugees is very relevant. (construction, light manufacturing, home based enterprises and agribusiness)

(g) The engagement with business diaspora has been particularly productive – with the Syrians leading the way with the trade preference granted by the European Union and being active investors.

(h) The degree of supervision required is intense as this is "uncharted territory" and issues arise daily.

(i) Proactive engagement with a broad group of stakeholders (donors, nongovernmental organizations, business membership organizations, and so on) helped in both the design and implementation stage.

(j) Establishing a strong Program Management Unit has been critical to the Government's ability to manage the underlying Program

## Annex 12: Description of Refugee Groups in Ethiopia

## Ethiopia Economic Opportunities Program (P163829)

### Summary

1. Refugee stakeholder groups that are likely to benefit from the program fall into three major categories: South Sudanese, Somali and Eritrean. Two out of these three groups—Somali and South Sudanese—have strong tribal identities, and a history of cross-border seasonal migration into Ethiopia. All three of the refugee groups share a common ethnicity, and in some cases kinship links, to their host communities. These links render the concept of an international border invalid for some of these peoples, as well as complicating the concepts of 'host' and 'refugee'. Each of the refugee-hosting regions has its own complex political economy, different to that of Ethiopia as a country. The degree of volatility in Gambella and Somali Regional State is at a high level, for a number of reasons that include both localized dynamics and wider national and regional tensions. Competition for access to resources between tribal groups is particularly acute in Gambella, with a huge increase in Nuer numbers, as well as their access to humanitarian resources, leading to other primary tribal groups—the Anuak in particular—feeling disenfranchised.

### Geographical Location of Refugee Groups

2. The primary refugee populations in Ethiopia are grouped into three areas of the country: South Sudanese refugees in Gambella (and increasingly in Benishangul-Gumuz), Somali refugees in the north and far south of Ethiopia's Somali Regional State (SRS), and Eritrean refugees in Tigray. On a map of Ethiopia this places the major refugee populations in the far north, east, south and western borders of the country. Three out of the four (including Benishangul-Gumuz) major refugee-hosting areas are classified as Developing Regional State—regions that have been acknowledged by the GoE to have greater development needs in comparison to other Ethiopian regions.

### South Sudanese and Somali Identities

3. South Sudanese and Somali refugees both maintain a flexible interpretation of the international border, some having moved back and forth over it for years, with many of those maintaining kinship groups in both Ethiopia and their home country. Many are nomadic or semi-nomadic pastoralists, for whom migration is a way of life and necessary to sustain their livestock. War and food insecurity in South Sudan has escalated dramatically the numbers of South Sudanese refugees arriving in Ethiopia, overtaking those following regular migration routes over the international border. The same is the case for Somali refugees, whose numbers have also grown well beyond regular migration patterns, mainly due to a mixture of drought and insecurity driving people to look for food, water and safety. Somali refugees, particularly those arriving into the far south of Ethiopia suffer from extremely high levels of malnutrition. The health status of South Sudanese refugees fleeing violence can also be very poor.

4. Tribal identity for both Somali and South Sudanese refugees dictates behavior, tradition and culture far more so than formal laws or governance systems. It also informs economic activity, with strongly defined gender roles and expectations for which types of work are acceptable, and not acceptable. South Sudanese refugees are predominately Nuer, and over time their growing numbers has altered the ethnic balance in Gambella from (predominantly) a mixture of Anuak, Nuer and highland Ethiopian to more heavily Nuer.[23] The active conflict over the border is now reflected and actively played out in Gambella. In

[23] The Mejeng comprise the most significant other ethnic group in Gambella; there are also smaller ethnic groups like the Komo, Opo, and Murle.

addition, there are also conflict dynamics between Ethiopian Nuer and the disenfranchised Anuak tribes, who have seen their power and influence diminish.

5. Populations in Gambella and SRS have long been shaped by cross-border relationships. As such, the concept of host community has limited value; the definitions 'host' and 'refugee' have become fluid and often merge, with family groups adopting one or other identity based on calculations of which will offer the most benefit. One implication is that people already move in and out of camps and engage in small-scale informal economic activity in the surrounding area, where many maintain kinship ties. This has created pressure on limited resources as populations have increased, and it also raises tensions between groups seen to be benefiting from access to resources from the international community and the GoE, and those that do not. In Gambella this is particularly acute given the dominance of Nuer access to humanitarian resources, while other groups, like the Anouk, do not receive the same attention and are increasingly disenfranchised. Similarly, SRS is a fragile environment, and has experienced a rapid succession of devastating droughts. Pressure on pasture and water is intense, and heightened by increased numbers.

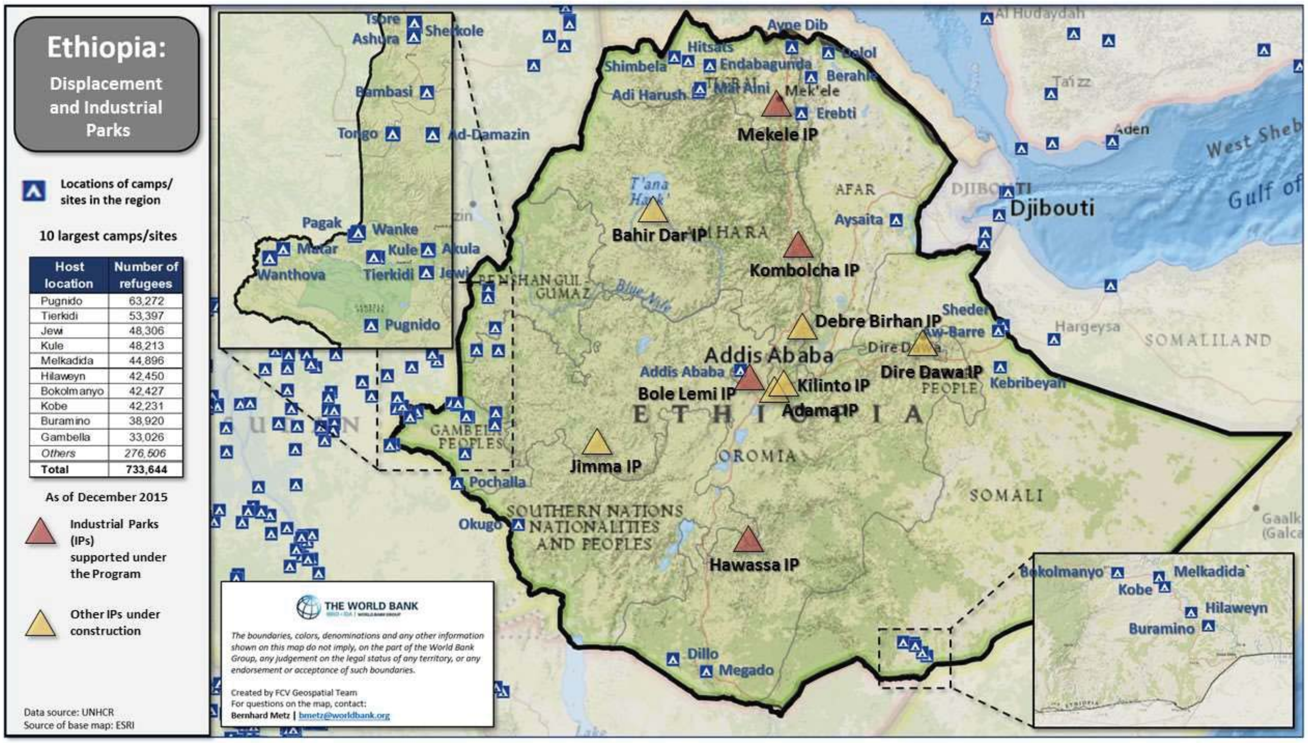
**Eritrean Refugees**

6. Eritrean refugees are in a slightly different position. A legacy of conflict defines the Eritrean, Ethiopian relationship and has severed what were once close ties between Tigrayans and Eritreans. The border between Eritrea and Ethiopia is heavily militarized (on both sides) and is still disputed; Eritrean refugees crossing the border take considerable risk on the Eritrean side. They are in better health and tend to have received more formal education and exposure to formal employment than South Sudanese and Somali refugees. Eritrean refugees already have legal out-of-camp privileges that tend to manifest in two ways, informal economic activity around the camps (and further afield) and, for many, onward migration out of Ethiopia. Like South Sudanese and Somali refugees, they share kinship ties and common language with their host communities in Tigray though these were upset in many cases by the war between the countries.

**Conclusions**

7. There is a high level of competition between certain tribal groups with access to humanitarian resources, and other Ethiopian tribal groups, who feel excluded. To do no harm, the program will consider the complex dynamics at work in the major refugee-hosting areas. With other international actors and the GoE it will also take care not to further aggravate certain groups who have felt disenfranchised, thereby inflaming conflict.

**Annex 13: Map of Ethiopia, Including Industrial Park and Refugee Camp Locations**




The population of refugees and asylum-seekers is estimated to total 901,236 (238,272 households). The approximate breakdown by nationality is as follows: South Sudanese (47.6 percent), Somalis (28.2 percent), Eritreans (18.4 percent), Sudanese (5 percent), Yeminis (0.2 percent), and other (0.7 percent).