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PROGRAMME FOR COUNTRY PARTNERSHIP FOR ETHIOPIA

2015 PROGRESS REPORT



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



Photo: Bringing key stakeholders together: The Prime Ministers of Ethiopia and Senegal and the Secretary-General of the United Nations hosted by the Director General of UNIDO at the Second ISID Forum, November 2014



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1. EXECUTIVE SUMMARY

This report highlights the main activities and key achievements of the Programme for Country Partnership (PCP) for Ethiopia for the period of November 2014 to November 2015.

The PCP is anchored in the industrial development strategy of Ethiopia. It aims to support the implementation of the Growth and Transformation Plan II (GTP II) and to support the government address economic structural transformation.

Since the start of implementation of the PCP for Ethiopia (PCP-ETH), substantial progress has been achieved. At the national level, two PCP coordination mechanisms have been established – the high-level Joint Steering Committee and the National Technical Task Force – under the leadership of the Government of Ethiopia. UNIDO also established a Secretariat within the Ethiopian Ministry of Industry (Mol). Within UNIDO, a nine-person team comprising experts from different branches of the Organization was established to provide technical assistance in the three priority sectors identified for the Programme.

The PCP is gaining recognition as an innovative model of partnership for achieving inclusive and sustainable industrialization in Ethiopia. The Secretary-General of the United Nations, the president of the World Bank, as well as heads of the African Development Bank (AfDB), the European Investment Bank (EIB) and the Chairperson of the African Union Commission (AUC), all praised the PCP model.

In Ethiopia, the PCP is already providing support to the government, including through feasibility studies aimed at facilitating investment from partners and leveraging technical assistance funds for larger-scale investment flows.

Over the course of the last nine months of implementation, master plans were finalized for four large-scale integrated agro-industrial parks (IAIP) in strategically located agricultural development corridors. Moreover, a master plan for a leather industry development district was also finalized and submitted to private investors, multilateral development banks (MDB) and development partners, generating considerable interest.

Preparations are underway for the first International Agro-Industry Investment Forum in Addis Ababa, to be held in May 2016. On 18 November, representatives of development partners, heads of MDBs, together with State Ministers of the Mol and the Ministry of Finance and Economic Cooperation (MoFEC), as well as the Ethiopian Investment Commission (EIC) announced to more than 56 national and international media outlets the preparation of the first of its kind agro-industry investment forum. As part of the preparation process, more than 200 investment profiles and ten green field investment projects were prepared for presentation to international and local investors.

Within the framework of the PCP, UNIDO signed a memorandum of understanding (MoU) respectively with the EIB, the AfDB, and the China Development Bank. This will help coordinate development efforts and leverage the technical assistance provided by UNIDO into larger-scale loans and grants from MDBs to support public and the private sector industrial infrastructure projects. Discussions have also been initiated with the China-Africa Development Fund (CAD-Fund) for a similar partnership.

Solid partnerships were established between UNIDO and other United Nations agencies, including the United Nations Conference on Trade and Development (UNCTAD), the United Nations Economic Commission for Europe (UNECE), the United Nations Economic Commission for Africa (UNECA) and the Food and Agricultural Organization (FAO) to address industrial development-related initiatives.

UNIDO supported the Government of Ethiopia in strengthening the technical capacity of key public institutions in charge of designing and implementing industrial/sectoral policies and promoting investment. Twenty experts from different institutions under the Mol were trained in industrial competitiveness analysis, value chain analysis and market intelligence.

In terms of project development and funds mobilization, five projects in the fields of agro-food, energy and environment were developed and the proposals submitted to partners. The projects have a total budget of \$7.3 million. In addition, a \$10 million soft loan for industrial infrastructure is being negotiated under the PCP and will be released to the Government of Ethiopia in December 2015.

Upon request of the high-level Joint Steering Committee of the PCP, UNIDO developed a country-level PCP funds mobilization strategy that is currently being reviewed by partners.

2. BACKGROUND

Following the Lima Declaration, Ethiopia and Senegal were selected to pilot the implementation of the PCP. In order to develop the pilot PCPs, UNIDO conducted high-level scoping missions in late 2014 to consult with relevant stakeholders.

For PCP-ETH, a multidisciplinary technical team was assembled in August 2014 and undertook a mission to Ethiopia during August and September 2014 to design the Programme. The PCP-ETH was developed after extensive consultations with development partners, the private sector and MDBs, under the overall leadership of the Government of Ethiopia. The executive board of UNIDO approved the Programme in December 2014. In February 2015, the PCP-ETH project document was approved by the Government of Ethiopia and project implementation began March 2015.

The PCP is rooted in the industrial development strategy of Ethiopia. It aims to support the Government in the implementation of the GTP II and in addressing challenges associated with structural transformation. The key features of the PCP are: (1) government ownership; (2) alignment with national development plans; (3) a strong partnership approach; (4) leveraging for investment; (5) focus on selected priority sectors; and (6) a rigorous monitoring and evaluation system.

The PCP focuses on three light manufacturing sectors: (1) agro-food processing; (2) textiles and apparel; and (3) leather and leather products. These sectors were selected based on their prospects for job creation, strong linkages to the agricultural sector, high export potential and ability to attract private sector investment, as well as taking note of UNIDO's comparative advantage to deploy an array of technical assistance services in these sectors.

3. KEY ACHIEVEMENTS

3.1 ESTABLISHING A GOVERNANCE STRUCTURE FOR THE PCP

One of the first activities of the PCP Ethiopia was the establishment of a governance structure under the leadership of the Government of Ethiopia. Two governing bodies were established: a high-level Joint Steering Committee (JSC) and an inter-ministerial National Technical Task Force (NTTF).

The JSC is chaired by the State Ministers of MoFEC and Mol. The JSC is composed of: Mol, Ministry of Agriculture, Ministry of Trade, private sector representatives, development partners, MDBs (such as the World Bank (WB), the International Finance Corporation and the AfDB), UNIDO, FAO, and other partners from the public and private sector that will be determined at a later stage.

The JSC is responsible for providing strategic direction to the PCP, aligning programmes to the priorities of the Government of Ethiopia, as well as overseeing funds mobilization and allocation.

The National Technical Task Force (NTTF) is responsible for the day to day coordination of PCP implementation. The NTTF is chaired by the Mol and is composed of technical institutes under the Mol, representatives of the private sector, the Ethiopian Revenues and Customs Authority and regional governments.

The establishment of these two bodies was crucial in solidifying government ownership of the PCP-ETH and for ensuring inter-ministerial coordination. The establishment of the PCP-ETH Secretariat was also important. The Secretariat, housed in the Mol, has a convening function and serves as a neutral broker; it is through the Secretariat that UNIDO provides its technical assistance.

Within UNIDO, a nine-person PCP team composed of technical experts from different branches was established at headquarters (HQ) and the field office in Addis Ababa. The multidisciplinary team is providing integrated technical support focused on the three priority sectors.

3.2 PARTNERSHIP MOBILIZATION

The PCP-ETH was presented to different partners during the second and third ISID forums organized in Vienna and Addis Ababa respectively. Forum participants included the Prime Minister of Ethiopia, the Secretary-General of the United Nations, presidents of the WB, EIB, AfDB, the Executive Secretary of the UNECA and the Chairperson of the AUC. The PCP was recognized by all the above as a model that demonstrates how multi-stakeholder partnerships can mobilize financing for industrial infrastructure projects and programmes. Development partners and MDBs active in Ethiopia have demonstrated their commitment and support for the PCP through their active participation in the JSC.

3.3 AGRO-FOOD SECTOR

Industrial development initiatives within the agro-food sector of PCP-ETH include the development of integrated agro-industrial parks (IAIPs). IAIPs are recognized by the Government of Ethiopia as an important tool for accelerating the structural transformation of the economy, from agriculture to manufacturing, and are part of the GTP II.

Master plans for the establishment of IAIPs at four strategic agricultural corridors were finalized and are being reviewed by the stakeholders. A range of investors from Asia, the Middle-East and Europe, in addition to MDBs, have expressed an interest in investing in the IAIPs.

Under this component of the PCP, \$11.8 million was mobilized from the Government of Italy, in the form of a soft loan for industrial and rural infrastructure. Out of this, \$10 million are earmarked as a loan to the Government of Ethiopia, and will be used for the development of basic infrastructure for rural aggregation points and the initial infrastructure for the IAIPs. An amount of \$1.45 million will be used to fund technical support provided by UNIDO and FAO to the Government of Ethiopia and the private sector, while \$350,000 is being utilized for investment promotion activities and the preparation of master plans for the IAIPs.

3.4 LEATHER AND LEATHER PRODUCTS SECTOR

The Ethiopian leather industry enjoys significant comparative advantages as Ethiopia has one of the world's largest livestock populations. However, the tanning industry produces highly contaminated waste water. Improper planning during the establishment of the tanneries in Ethiopia led to difficulties in monitoring and mitigating pollution. The establishment of a leather district will enable stakeholders to better address pollution challenges. Under the PCP, a feasibility study for the proposed Modjo Leather City (MLC) industrial zone was prepared based on the official request of the Ethiopian Mol. The MLC presents an opportunity to set-up an environmentally friendly leather tanning district, driven by a network of tanneries and a common effluent treatment plant. The MLC will play an important role in enhancing not only the environmental and social conditions, but also the local economy.

UNIDO is supporting the Government of Ethiopia in securing an estimated \$60 million loan from the EIB for the establishment of the MLC. Promotion materials, including a video using 3D technology and a brochure, have been useful in promoting the project and encouraging local and foreign investment.¹

3.5 TEXTILES AND APPAREL SECTOR

The textiles and apparel sector in Ethiopia has opportunities in both regional and international markets. At the same time, fierce competition, mass customization, increased leverage of buyers, post-multi-fibre agreement quota-free environment, and the African Growth and Opportunity Act pose both challenges and opportunities for Ethiopian enterprises.

There are significant openings for Ethiopia to supply the regional market with cotton fabric. However, production and supply chain inefficiencies along the cotton-to-textile value chain prevent Ethiopia from becoming a global player. One of the main activities of this component was the preparation of an

¹ The video can be viewed at: <https://www.youtube.com/watch?v=W28w-M5JvF8Q>

investment promotion portfolio of Ethiopian textiles and garment companies.

Ten large investment projects have been identified jointly by the Agribusiness Development Branch and the Business Investment and Technology Branch of UNIDO. The profiles are under review, and a brochure and video on the Ethiopian textiles and apparel sector are being prepared for investment promotion purposes.

3.6 INSTITUTIONAL CAPACITY-BUILDING

The objective of this cross-cutting component of the PCP is to strengthen the analytical capacity of the MoI to better generate industrial intelligence and policy, primarily for agro-industries. UNIDO supported the Government of Ethiopia through strengthening the technical capacity of key public institutions in charge of designing and implementing industrial/sectoral policies and promoting investment. These include the Leather Industries Development Institute (TIDI), Textile Industry Development Institute (TIDI) and the Food, Beverages and Pharmaceutical Industry Development Institute (FBPIDI). Twenty experts from above institutions and the MoI participated in a UNIDO training programme focused on methodologies for industrial competitiveness analysis, value chain analysis and market intelligence. The training programme was highly valued by the participants.

The NTTF also approved the project document for the implementation of an institutional capacity-building programme. Furthermore, UNIDO prepared a background paper, which was used for a Diagnostic Trade Integration Study of Ethiopia.

3.7 INVESTMENT PROMOTION

UNIDO is supporting the organization of the first high-profile International Agro-Industry Investment Forum in Addis Ababa, to be held in May 2016. For this purpose, a team based at UNIDOHQ and a national task force with representation from all main stakeholders (including the MoI, Ministry of Foreign Affairs, MoFEC, and the EIC) was established. A detailed work plan for the preparation of the investment forum, including

the roles of the stakeholders – such as the diplomatic missions in Ethiopia, UNIDO's network of Investment and Technology Promotion Offices, and the diplomatic missions of Ethiopia in the Organization for Economic Cooperation and Development member countries and emerging economies – was prepared in close collaboration with the PCP NTTF. A brochure presenting investment opportunities in Ethiopia entitled "Why invest in Ethiopia?" was developed, including sector intelligence and investment profiles.

A pre-investment forum was held on 18 November in Addis Ababa to announce the forum to international and national media. Representatives of development partners, heads of MDBs, together with the State Ministers of the MoI, MoFEC and the EIC, announced the preparation of the first of its kind International Agro-Industry Investment Forum to more than 56 national and international media outlets.

A database of companies in the three priority sectors – agro-food, leather and leather products, and textiles and apparel – was compiled drawing on multiple local sources, such as the Chamber of Commerce, TIDI, LIDI and a number of sectorial associations (such as millers, agro-products exporters and women exporters). Currently, it is the most up-to-date database of micro, small and medium-sized enterprises in Ethiopia, comprising over 1,200 entries in the three sectors. Three waves of identifying investment profiles were conducted, yielding a compilation of 222 investment profiles. Moreover, ten green field projects were identified for investment promotion.

3.8 TRADE FACILITATION

This component of the PCP was designed to support the Government of Ethiopia to address matters pertaining to trade facilitation of Ethiopian products (including competitiveness and market access). This component also highlights areas for improvement in terms of time and cost reduction in supply chains, from exit point in Ethiopia to entry point in third markets. This is being done as part Ethiopia's GTP II and its Trade Logistics Strategy. This component also emphasizes coherence between the PCP and the Diagnostic Trade Integration Study of Ethiopia (DTIS) update.

An UNCTAD-UNIDO partnership was established under which the agro-processing sub-chapter of the DTIS was produced. This includes UNIDO integrating issues pertaining to World Trade Organization sanitary and phytosanitary measures and technical barriers for trade into the DTIS, in the preparation of the trade-related technical assistance activities of relevance to the PCP-ETH.

The outlines of the UNECE-UNIDO collaboration for application of the Business Process Analysis methodology and the Trade Facilitation Road Map were defined and agreed upon. Moreover, in collaboration with FAO, harmonized animal identification and traceability systems in Ethiopia are being updated.

3.9 ENVIRONMENT

The project document titled “Slaughterhouse waste management: the sustainable and productive use of animal by-products in Ethiopia” was finalized in collaboration with Ethiopian counterparts including private slaughterhouses, Mol, MoFEC and the Ethiopian Meat and Dairy Industry Development Institute. In addition, consultations for project financing (\$3.9 million) were undertaken with partners in China, including the Chinese Ministry of Commerce (MoFCOM). Upon endorsement of the project document by the Mol, a letter to request full project funding was delivered by MoFEC to the Chinese MoFCOM. This is currently being followed up with MoFCOM, with a funding potential of \$4 million from the Government of China.

3.10 SOUTH-SOUTH AND TRIANGULAR INDUSTRIAL COOPERATION

This component aims to leverage impact for inclusive and sustainable industrial development through South-South and triangular industrial cooperation (SSTIC). In order to facilitate SSTIC, a manual on developing and reporting on SSTIC projects in Ethiopia was developed, in addition to a concept note for implementing SSTIC with the aim of preparing a full-fledged SSTIC project in early 2016.

Support was provided by UNIDO to the Government of Ethiopia for the preparation of the China-Africa Investment Forum. A MoU for the partnership with the CAD-Fund has also been developed. The MoU aims to support the three priority sectors of the PCP-ETH through a South-South cooperation modality.

Under this component, UNIDO and Deutsche Messe, the world’s leading industrial fair organizer, discussed a partnership to organize the first industrial fair in Africa. A meeting between the Chief Executive Officer of Deutsche Messe and the Director General of UNIDO took place on 25 November 2015. Deutsche Messe is invited to attend the investment promotion event in Ethiopia in early 2016 under the framework of the PCP-ETH.

4. MONITORING AND EVALUATION

The PCP results framework was developed in line with the GTP II. It focuses on the priority sectors as selected for the PCP. To the extent possible, the PCP and GTP II Monitoring and Evaluation (M&E) systems will be linked. As the PCP requires a comprehensive M&E system to collect data to track its progress and report results, the Partnerships and Results Monitoring branch of UNIDO initiated discussions with Ethiopia's Central Statistical Agency and MoFEC to collaborate on the development of a rigorous M&E system for the PCP.

The Programme will undergo a mid-term review by the end of 2017 and a final evaluation at the end of the Programme in 2019. To this end, the evaluation group at UNIDO has undertaken an evaluability assessment of the Programme which provided important comments that were used to improve the results framework.

5. UPCOMING KEY ACTIVITIES

In 2016, UNIDO will continue to improve the governance structure of the PCP at the country level, as well as at UNIDO HQ and the field office. The Organization will also support the government to mobilize funds for the implementation the Programme and organize an international investment forum. UNIDO will also work with the JSC of the PCP-ETH in loan and grant negotiations with MDBs for large-scale industrial infrastructure development, such as the Modjo Leather City and the IAIPs, and mobilize funds for technical assistance.



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