

**THE EUROPEAN EMERGENCY TRUST FUND FOR STABILITY AND  
ADDRESSING THE ROOT CAUSES OF IRREGULAR MIGRATION AND  
DISPLACED PERSONS IN AFRICA**

**Amendment number 2- Action Document for the implementation of the Horn of Africa  
Window**

**T05-EUTF-HOA-ET-60**

**1 IDENTIFICATION**

<b>Title</b>	<b>Ethiopia Job Compact Sector Reform and Performance Contract</b>
<b>Total cost</b>	Total estimated cost: 30 million EUR  Total amount drawn from the Trust Fund: 30 million EUR of which EUR 30 million for budget support.  This action is co-financed in parallel co-financing by: - World Bank - USD 250 million; - European Investment Bank- EUR 200 million; - UK Department for International Development - GBP 80 million;
<b>Aid method/method of implementation</b>	Budget Support - Direct management – Budget Support: Sector Reform and Performance Contract
<b>DAC code(s)</b>	16020- Employment 32120- Industrial development 15170-Women and Youth 25010- Business support services and institutions 13010- Migration 14050- Environment and waste management 43030- Urban development

**2 RATIONALE AND CONTEXT**

**2.1 Summary of the action and its objectives**

The action directly responds to **objectives 1 and 3 of the Trust Fund**, priority domains 1 and 3 of the Valletta Action Plan, and Sustainable Development Goals 5, 8, 9 and 10. The current Action is part of the Job Compact, a multi donor program (with DFID, World Bank and EIB) to support Ethiopia in developing its industrial base and in offering jobs to Ethiopian and refugees, in line with the commitments made by the Ethiopian authorities in the context of the Comprehensive Refugee Response Framework (CRRF). The Action for the European Union consists of a Sector Reform and Performance Contract (SRPC) for three years, looking at supporting the industrial, refugee and employment sector policies and at improving the business climate, attracting foreign investment, increasing domestic revenue mobilization, offering economic opportunities to refugees and promoting decent work standards.

**The intervention logic** of this action is that if the Government of Ethiopia succeeds in developing sustainable industrialisation - which includes making important efforts in developing the private sector, promoting investments, maintaining stable macro-economic policies, and progressing in the decent work agenda - and it fulfils its pledges on refugee self-reliance and refugee mobility (made in the context of the CRRF), there will be more

employment opportunities to Ethiopians and refugees, and this will contribute to the reduction of irregular migration from Ethiopia. This logic is aligned to the theory of change developed by the World Bank for the Job Compact and illustrated in appendix 2.

**The overall objective** of the Job Compact Sector Reform and Performance Contract (SRPC) is to enhance sustainable economic opportunities in Ethiopia. The specific objectives are:

SO 1- Support sustainable industrialisation;

SO 2- Create decent employment opportunities for Ethiopians and refugees; SO 3- Improve the refugee regulatory framework.

The **geographical coverage** is Ethiopia.

The **target beneficiaries** of the action will be (1) the young women and men of Ethiopia and the refugees who will be provided with increased economic opportunities; (2) the stakeholders in the industrialisation process of Ethiopia, i.e. the Government and private sector working in partnership.

## 2.2 Context

### 2.2.1 Sector/Country/Regional context/Thematic area

Ethiopia is the second most populous country in Africa with an estimated population of 93 million<sup>1</sup>, and growing rapidly at an average annual rate of 2.6%. With the majority of the population (80%) living in rural areas, it is a Low Income Country with a nominal GDP per capita of USD 794 in 2015/2016, ranking 174 out of 188 countries at the Human Development Index (2016). According to the 2014 World Bank Poverty Assessment, this performance has helped reduce the share of the population living below poverty line from 38.7% in 2004/05 to 29.6% in 2010/11.

The Government of Ethiopia strongly commitment to pro-poor development and this has allowed the country to make strong progress towards achieving most of the Millennium Development Goals. Although it started from a low base, the latest (2014) poverty analysis report shows a significant improvement on most of the economic and social development indicators. The national development policy framework, **the Growth and Transformation Plan II (2015/16-2019/20)** - the current national development strategy that the European Union and other donors acknowledge as the central reference for their own initiatives - aims to reach lower middle income status by 2025 within stable macroeconomic environment while pursuing aggressive measures towards rapid industrialisation and structural transformation. To achieve this, the Government of Ethiopia has developed a massive public infrastructure investment policy coupled with a pro-poor spending policy.

Despite its strong economic growth, Ethiopia remains at a very early stage in its economic structural transformation, and **development of an industrial sector is essential for sustained long-term growth and poverty reduction**. With an estimated two million young Ethiopians entering the labour market every year, lack of economic opportunities coupled with marginalization, natural disasters, and food insecurity create a set of complex drivers that undermine national socio-economic stability and security, and act as push factors for rural-urban migration as well as international migration. Thus, the Government of Ethiopia has embarked on an ambitious plan to become the light-manufacturing hub of Africa, with the aim

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<sup>1</sup> Central Statistics Agency protection 2013

of creating two million manufacturing jobs<sup>2</sup> (with focus on the textile/garment, leather/leather products and agro-processing sectors) and a fourfold increase in the manufacturing sub-sector's share of GDP by 2025 (from circa 4% in 2012 to 17% while the share of the industry sector to GDP is expected to increase from 13% to 27%).

The Government of Ethiopia recognises human resources as a key instrument for the development of a country<sup>3</sup>, and has therefore adopted the National Employment Policy and Strategy (NEPS) in April 2016 with this in mind. It acknowledges the need to create decent youth employment opportunities in order to promote stability in the country, considering that one of the main groups originating the recent civil protests were frustrated young people that cannot fulfill their labor and wellbeing expectations. Although some improvements are observed in Ethiopia (particularly through the government's development approach to promote decent work through capacity building and intensive use of labour, as well as the abolition of unacceptable form of work) the country still struggle to create enough jobs to meet labour market demand. Moreover, job quality across much of the workforce remains a concern, since a high proportion of employment opportunities are still created in the informal economy, while unemployment remains a particular problem for specific groups like women and young people in urban areas. Despite the fact that laws are enacted the issue of safe work is not adequately addressed due to the lack of resources and too few labour inspectors. Furthermore, issues such as working poverty remain pervasive, with a still high proportion of Ethiopian households earning less than what is necessary to survive, despite having a job. Thus, important challenges persist to improve working conditions, in particular in a context where low wages are often presented as a selling point for foreign companies to invest in Ethiopia and where social dialogue as a means of promoting industrial peace and productivity remain low.

Regardless of growing challenges such as continuous drought in many regions, socio-economic integration of millions of young Ethiopians and political tensions, **the Government of Ethiopia maintains an open-door policy towards the increasing number of refugees seeking protection in the country.** Ethiopia currently hosts more than 910,000 refugees (UNHCR, February 2018) - the second largest refugee population in Africa- with the majority originating from South Sudan, Somalia, Eritrea and Sudan. This number continues to grow rapidly with refugees coming from a number of protracted crises on its borders, such as South Sudan and Somalia, which show little sign of abating in the short term.<sup>4</sup> Recognizing the vulnerability of these groups, Ethiopia has maintained an open border policy towards refugees, however as numbers grow there is an increase burden on natural resources, directly affecting host communities and the country more broadly.

At the Refugees Leaders' Summit on 21 September 2016, the **Ethiopian Government set out a vision for the gradual relaxation of the camp-based approach to hosting these large numbers of refugees.** This political declaration aimed at improving responses to large movements of refugees and migrants, including those in protracted refugee situations, and set out the Comprehensive Refugee Response Framework with four broad objectives: (i) ease pressure on host communities; (ii) enhance refugee self-reliance; (iii) expand access to third solutions; and, (iv) support conditions in countries of origin for return in safety and dignity. This included, subject to the availability of resources, nine pledges on access to services such

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<sup>2</sup> As per the Industrial Development Road Map, for the baseline year (2012) the number of new jobs created by SMEs was 554,000 and the new jobs generated in the manufacturing sector was 204,000.

<sup>3</sup> The Federal Democratic Republic of Ethiopia: National Employment Policy and Strategy, April 2016.

<sup>4</sup> Since the beginning of 2017, there have been more than 72,000 new arrivals of refugees in Ethiopia (UNHCR, August 2017) mainly from South Sudan but also with continued arrivals from Somalia and Eritrea. Only in the first two months of 2018, 15,097 refugees arrived in Ethiopia, including 7,202 in February. They include more than 10,700 from South Sudan and more than 3,700 from Eritrea.

as education, the availability of agricultural land and the right of 30,000 refugees to work legally under an Ethiopian ‘Jobs Compact’. The Compact is an agreement between the Government of Ethiopia and international partners to create 100,000 new jobs through a package of \$500m in concessional financing to support Ethiopia’s industrialization strategy. Linked to these resources, the Government of Ethiopia will make the right to work available for 30,000 refugees and facilitate employment opportunities for them.

## ***2.2.2 Public Policy Assessment and EU Policy Framework***

### ***Industrial Policy***

Ethiopia is one of the few African countries that have formulated and implemented an Industrial Development Strategy (IDS) since the early 2000s. The IDS was designed by the Ethiopian government and based on an Agricultural Development Led Industrialization (ADLI) advocating for a strong state role to guide the private sector in the development process. This process has been characterized by more flexibility and scope for policy learning, including continuous updating of the priority sectors and policy instruments.

The Government of Ethiopia’s strategy for promoting economic growth and reducing poverty has been recently articulated in its five-year **Growth and Transformation Plans**, I (2010/11-2014/15) and II (2015/16-2019/2020). **These Plans seek to transform the economy from being predominantly agrarian to modern and industrialized, with a long-term goal of making Ethiopia a middle-income country by 2025**, under the assumption of sustained growth rates of at least 11% per annum during the planned period.

The Government has developed a national industrial policy with a focus on the creation of several industrial and agro-industrial parks in those priority economic sectors that add value and are export oriented, generate high employment, have potential competitive and comparative advantages, and have multiplier effects for other sector-related industries.

The current industrial policy is based in a series of high level planning documents comprising the **2014 Ethiopian Industry Development Roadmap (2013-25) complemented with an Industrial Development Strategic Plan** and a corresponding Institutional Setup for Ethiopian Industrial Development. The Industrial Development Strategic Plan 2013-25 is the core document providing the overall framework in terms of vision, goal and programs needed to achieve economic transformation. It features, i) a review of industrial growth and challenges faced during previous national plans, ii) a SWOT analysis, a stakeholder analysis and identification of strategic issues of the sector, iii) presentation of the vision, goal and strategies, iv) outline of 6 development programs for the manufacturing sector, v) an introduction of the institutional set up developed for implementation of the industrial strategy and vi) a monitoring and evaluation plan.

**In addition**, the Industrial Park Proclamation (886/2015) and the regulation establishing the Industrial Park Development Corporation<sup>5</sup> (326/2014) have set the basic framework for industrial park development in Ethiopia. The Industrial Park Development Corporation, in combination with a new mandate bestowed on the Ethiopian Investment Commission, the setting up of dedicated technical public institutes and a high level Ethiopian Investment Board (chaired by the Prime Minister), contributed to the materialisation of the current industrial development plan, with notably a flagship industrial park already operational in Hawassa and eleven more in the pipeline or at various stages of development.

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<sup>5</sup> <http://www.ipdc.gov.et/index.php/en/>

**Ethiopia's industrial parks aim to attract high-quality investments** in specific sectors that can contribute to export growth, enter global export markets and better integrate the country with the global economy. They offer duty-free imports of capital goods, construction materials and raw materials for the production of export commodities. They reduce set-up times by centralizing industrial space, land and supporting infrastructure (including a dedicated one-stop-shop for key services including customs, telecom, electric power and logistics services). As such, they offer an opportunity for substantial economies of scale in a country where there is lack of infrastructure. Public-private dialogue is essential for the business and investment environment to improve. The Government of Ethiopia is putting in efforts for trade facilitation, and there are existing fora of dialogue between private companies (of which importantly European firms) and the authorities on the business climate agenda. This operation will strive to enhance this dialogue for concrete results.

Of course, **important challenges remain, which may prevent Ethiopia from becoming the manufacturing powerhouse of Africa.** These challenges are well known and have already gathered considerable attention from the Government and the Development Partner's community, they include: poor logistics costs and lead times; limited qualified labour supply and high rates of employee turnover; low institutional, regulatory and administrative capacity; insufficient "off the fence" local infrastructure investments; limited backward linkages; and limited progress on trade policy issues.

**The industrial policy, as articulated in these various strategies, documents and plans, is judged relevant, as it aims to bring structural change in the economy** to realize the vision of reaching middle-income country status by 2025 as well as to support the overarching national goals of sustaining rapid and broad based economic growth and fully eradicate absolute poverty in Ethiopia.

### Employment Policy

Ethiopia has different policies and strategies that affect employment. It is one among the many countries that adopted ILO Convention No 155 of 1981 in 1991 which resulted in two major regulations: Labour Proclamation No. 377/2003 and Labour Proclamation No. 515/2007 on public civil servants. Currently under amendment, the Labour Law (Labour Proclamation 377/2003) is supported by regulations, codes of practice and collective bargain agreements. Ethiopia's Labour Law was proclaimed in 2003 to ensure that worker-employer relations were governed by certain basic principles, to guarantee the rights of workers and employers to form associations and to strengthen and define labour administration. Labour rights are also enshrined in the constitution, including those regarding the security of persons, the prohibition against inhumane treatment and the abolishment of slavery and servitude, and forced and compulsory labour. Ethiopia Labour Law does not prescribe minimum wages through statute. Usually wages are fixed by the employer or by collective agreements or by the employee's contract of employment. The Labour Proclamation has broad applicability in Ethiopia: it applies to all employment relations based on a contract between a worker and an employer. However, for proper implementation of the Labour Proclamation and other related laws, a labour administration system has been established by the government with Ministry of Labour and Social Affairs (MoLSA) as a focal point at Federal level and the Bureaus of Labour and Social Affairs (BoLSAs) in the regions in charge of performing employment, labour relations and inspection services. Without a coordinated and well-financed system of labour administration, and with limited technical and financial capacity at national and regional level, it is difficult to achieve the aim of decent work for all.

Ethiopia has had a regulation on Occupational Safety and Health (OSH) since the 1940's. The MoLSA is the state organ that regulates workers' safety and health in work places, both private

and state owned. The national level policy on occupational safety and health was adopted and approved by the Government in July 2014 with the objective at promoting a strong occupational safety and health system which helps to prevent and control occupational hazards effectively. Although there is no compulsory insurance system for occupational injuries in Ethiopia, the MoLSA is empowered to identify and require some enterprises to join a compulsory insurance scheme. However, this provision has not yet been implemented. The labour inspection system is not adequately coordinated and occupational injuries sustained at work are reported at local labour offices for workers covered by the law. Among the three broad sectors considered in the last Decent Work Country Profile report (ILO, 2013), the highest numbers of occupational injuries –both fatal and non-fatal- were recorded in industry growing from 959 in 2000 to 5,645 in 2010. In all cases, underreporting is a serious problem and are likely to underestimate the true extent of occupational injuries in Ethiopia.

In April 2016 Ethiopia presented a new **National Employment Policy and Strategy (NEPS)** with a very clear vision to: (i) coordinate employment creation efforts in different sectors; (ii) create effective and sustainable employment opportunities; and, (iii) to provide comprehensive information on the situation of national employment to the government. This policy and strategy, which has a predominant focus on job protection and security, social dialogue and labour market services, has shown a low rate of implementation despite the government efforts to increase employment rates in Ethiopia, due to serious financial, technical and human shortcomings of MoLSA and BOLSAs, as well as limited social dialogue among representatives of government, employers and workers.

The government is engaged in the drafting of the fourth generation of the Ethiopia Decent Work Country Programme (DWCP)<sup>6</sup> which is a tripartite (Government, Workers and Employers) program framework, designed to address country priorities identified by the constituents in collaboration with the ILO Country Office. The framework is aimed at facilitating the delivery of ILO's support to the country toward ensuring sustainable poverty reduction through the integration of decent work priorities with the national development agenda as set out in the Growth and Transformation Plan (GTP, 2010/11-2014/15) and will support the implementation of the current NEPS.

### Refugee Policy

**Refugees in Ethiopia have until now generally been subjected to a comprehensive encampment policy** in which refugees are hosted in one of the twenty-seven refugee camps managed by the Administration for Refugee and Returnees Affairs (ARRA) and by UNHCR, and they are only allowed to leave the locations on an exceptional basis. These camps are usually located in peripheral border areas of the country and often - but not always - refugees and host communities belong to the same cultural/ethnic groups. The exception to encampment has been the Out-of-Camp Policy, which since 2010 has allowed some Eritrean refugees to live outside camps, normally on the condition that they can support themselves or have a sponsor. So far, no formal policy document or guideline setting out the rules and procedures for the Out-of-Camp Policy has been adopted.

**There are no provisions under Ethiopia's current law for local integration of refugees.** The country maintains its reservations to the 1951 Convention relating to the Status of Refugees, notably to Article 17 (access to wage-earning employment) and Article 22 (access to public education). The 1995 Constitution offers only citizens the right to work, and also provides for the right to join unions, to bargain collectively, and to strike, as well as to other

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<sup>6</sup> Ethiopia Decent Work Country Programme – ILO - [http://www.ilo.org/addisababa/countries-covered/ethiopia/WCMS\\_445889/lang--en/index.htm](http://www.ilo.org/addisababa/countries-covered/ethiopia/WCMS_445889/lang--en/index.htm)

labour rights generally. The 2004 refugee proclamation exercised Ethiopia's reservation to the 1951 Convention's right to work, placing the same restrictions on refugees as on other foreigners. This has prevented refugees from formally enjoying these rights and refugees have therefore until now not had access to the formal labour market. Likewise, refugees are not incorporated into development plans at federal or local levels and funding for refugees and Ethiopian development projects are kept clearly separated.

As refugees (either in-camp or outside camp) are not allowed to work in the formal private or state sector, the only economic participation options left for them are in the camps or in the informal sector in the surrounding areas (i.e. in construction, small shops, street trade, etc.). Lack of access to the formal labour market and limited livelihood opportunities in the camps, many of which are located in remote areas of Ethiopia with little economic activity, scarce resources and harsh camp conditions, are important push factors for secondary migration of Eritrean and Somalis refugees towards Europe or elsewhere. **Opportunities for refugees to participate in the Ethiopian labour market, paired with the creation of sustainable economic and employment opportunities in the areas near the camps, could provide refugees and host communities with better perspectives for self-reliance in the longer term, thereby both reducing push factors and enabling them to contribute to the Ethiopian economy.** For this to succeed, it will be important that both government authorities and other stakeholders ensure outreach and targeted information activities addressed at both the private sector/employers and citizens to explain the changes initiated via the refugee pledges and the new Refugee Proclamation currently under preparation.

With the important global policy shift towards refugees since September 2016 and the commitment of the Ethiopian Government to pilot the Comprehensive Refugee Response Framework (CRRF), **there is now a window of opportunity to work towards a changed approach to the handling of the refugee population in Ethiopia.** On 20 September 2016, Ethiopia made nine important pledges at the Leaders' Summit on Refugees, including the one of "Building industrial parks where a percentage of jobs will be committed to refugees" (pledge 7)<sup>7</sup>:

In the follow-up, ARRA and UNHCR have taken the lead and worked closely together and drafted a Roadmap to guide the implementation of the pledges. Initial consultation on the Roadmap has been held with stakeholders and when completed this Roadmap will be part of the national implementation of CRRF in Ethiopia. **The implementation of the nine refugee pledges and the CRRF in Ethiopia requires both policy and legislative reforms, notably a new Refugee Proclamation.** It is foreseen that the new Refugee Proclamation could be presented to Parliament in 2018.

***Based on the analysis, it is concluded that the public policies remain sufficiently relevant and credible and that progress is satisfactory.***

### ***2.2.3 Stakeholder analysis***

Several departments of the Government of Ethiopia will be involved in the execution of the Job Compact. **The Ministry of Finance and Economic Cooperation (MoFEC)** is leading and coordinating the whole process, including the dialogue with donor partners. The **Ethiopian**

<sup>7</sup> Other pledges are: Expansion of the Out-of-Camp Policy to benefit 10% of the current refugee population; provision of work permits to refugees and to those with a permanent residence ID; Provision of work permits to refugees in areas permitted for foreign workers; Increase of enrolment in primary, secondary and tertiary education to all qualified refugees without discrimination and within the available resources; Making available irrigable land to allow 100,000 people (amongst them refugees and host communities) to engage in crop production; Allow for local integration for those protracted refugees who have lived for 20 years or more in Ethiopia; **Building Industrial Parks where a percentage of jobs will be committed to refugees**; Enhance the provision of basic and essential social services; Provision of other benefits such as issuance of birth certificates to refugee children born in Ethiopia, possibility of opening bank accounts and obtaining driving licenses.

**Investment Commission (EIC)**, directly attached to the Prime Minister Office, is the main technical stakeholder in the planning and monitoring of the Compact. **The Industrial Park Development Corporation (IPDC)** is in charge of the planning, execution and monitoring of the infrastructure works, as well as the management of the Industrial Parks. The Ministry of Industry (MoI) is responsible for promoting and expanding the development of industry by creating conducive enabling environment for the development of investment and technological capacity of the industry sector by rendering efficient support and services to the development investors.

The labour legal framework in Ethiopia is guided by Labour Proclamation 377/2003 and the National Employment Policy and Strategy (NEPS) enacted in 2016. **The Ministry of Labour and Social Affairs (MoLSA)** and the **Bureaus of Labour and Social Affairs (BoLSAs)** are responsible of settling industrial peace, maintain employee's health and safety at work place, improve working conditions and environment, and promote efficient and equitable employment services. CETU, the Confederation of Ethiopian Trade Unions, and EEF, the Ethiopian Employers Federation, together with the ILO will provide for tripartite social dialogue on the basis of ILO conventions, to facilitate the involvement of employers' associations and trade unions in the management and decision making processes of the labour administration system.

**The Administration for Refugee and Returnees Affairs (ARRA)** is in charge of managing and coordinating the refugee programme in Ethiopia as enshrined in the Refugee Proclamation of 2004. As a government counterpart of UNHCR, ARRA plays a leading role in the overall refugee management operations in the country.

**Local Authorities** (Regions and Municipalities) are also expected to play a significant role in the execution of the Job Compact in terms of housing, transport, training, etc. and ensuring compliance of the labour law in the Industrial Parks.

**Main funding partners** are the World Bank, DFID, the European Investment Bank and the EU (cf. 3.2 Donor coordination). Other partners such as UNHCR and ILO will provide technical inputs in their specific areas of expertise.

**The Private Sector**, in particular foreign investors, will be key to the success of the Industrial Parks. Given the expected number of job to be created, the **workers** will also be an important stakeholder, in particular in the communities surrounding the Industrial Parks. This operation will promote public-private dialogue.

#### *2.2.4 Priority areas for support/problem analysis*

##### Problem Analysis

**Ethiopia has not yet achieved its demographic transition** and is still experiencing high population growth (around 2-3% per year). Youth unemployment is increasingly a problem as more than 2 million young persons are joining the job market every year, an increasing part of which has completed secondary and tertiary education. Ethiopia also remains a rural country, where an estimated 80% of the population lives in rural areas. The agriculture and informal urban sectors employ a large size of the labour force, and employment in these sectors is characterized by low earnings – a factor that contributes significantly to the problem of the 'working poor' in Ethiopia, in both public and private sectors. **A strong commitment is needed to support the attainment of the NEPS and of the DWCP, and to create specific policy instruments, such as a minimum wage, that could be used to curb "working poor" dynamics.** For this type of policy to be effective it has to be complemented with policies aimed at raising productivity, improving the living conditions of the working poor, stimulating job creation for young people and women, etc. It also has to be accompanied by enhanced capacity in the relevant ministries to ensure policy implementation and enforcement. Although one of



the major development objectives of the Government in the GTP II is to generate employment for the expanding labour force, and to support ministries and regional bureaux in creating safe and productive working environments, paradoxically budget expenditure for labour and social welfare has been decreasing substantially over the last years, and represents about 0.4% of the total expenditure for social services, 13 times less than public health expenditure. The budget approved for labour and social affairs for the fiscal year 2016/07 was EUR 3.05 million.

Ever since the first case of Covid-19 was reported in Ethiopia on 13 March 2020, the Government has adopted a series of measures to contain the pandemic, including the declaration of a 5-months state of emergency period. Covid-19 is currently mainly a public health crisis. However, its consequences will go far beyond health and will have an important impact on many other sectors, including the economic and employment sectors. Focusing on the potential size of affected employees, plausible assumptions suggest that 750,000 to 1.5 million workers could be affected in sectors such as horticulture and manufacturing across Ethiopia, jeopardising Ethiopia's economic development efforts.

**Ethiopia hosts one of the largest refugee population in the world** (more than 910 000 are currently settled) and the flow of refugees from Eritrea and South Sudan is still high. While Ethiopia has opened its borders to neighbouring refugees, **there is a lack of opportunities for the refugee population outside the camps**. Currently, access to the regular Ethiopian labour market for refugees is restricted, although the new refugee proclamation provides for that access. Creating employment opportunities for growing numbers of refugees as well as for the local population will be a further challenge for Ethiopia in the years to come. This in particular because refugees are amongst the most vulnerable employees (they risk not only losing their jobs, but also their status), and are thus at particular risk of exploitation and abuse on the labour market.

While Ethiopia is receiving more foreign direct investment, **the weak investment climate** (158<sup>th</sup>/179 in Doing Business) is deterring international investors. While the Government of Ethiopia has significantly increased internal resources over the year, **the tax to GDP ratio remains below the African average** (11.6% in FY 16/17). This has hampered the Government's ability to fund the infrastructure needed to create employment opportunities for its youth.

#### Priority Areas

**As there is an urgent need to provide decent and productive employment for young people (including refugees), promoting industrial development and attracting foreign direct investments in productive sectors such as light manufacturing will continue to be a priority for the country**, and Development Partners should increase their support to it. The EU is therefore joining other partners in the support to the country's industrialisation process while ensuring the promotion of decent work for all.

**For industrial development to be sustainable, both environmental and social aspects need to be carefully brought on board**. This action has decided to focus on promoting decent work, as already difficult labour conditions could be exacerbated when industrial parks bring workers/inhabitants to the host urban centres, putting pressure on public services such as housing, transport, health facilities, etc.

**In a context of important migratory flows in the country, it is also important to support Ethiopia in its progressive policy towards refugees**, which is at the basis of this Job Compact.

### 3 OTHER AREAS OF ASSESSMENT

#### 3.1 Fundamental values

The Constitution establishes a federal and democratic state with a multi-party parliamentary government. In addition, Ethiopia underwent for the second time in 2014 the UN Universal Periodic Review and adopted in 2017 a second National Human Rights Action Plan.

The important economic growth rate in the last years has had a positive influence on the fulfilment of Ethiopian's social and economic rights, as reflected by the reduction of poverty rates, increased life expectancy and improvements in access to basic services such as drinking water and education.

The situation on human rights nevertheless remains a cause for concern and is on the agenda between the EU, other Development Partners and the Government:

- **Civil and political rights:** A democratic level playing field for the opposition parties needs to be promoted, as well as the proclamations on civil society, media and anti-terrorism.
- **Rule of law:** the representative and oversight institutions such as the Parliament, the Ethiopian Human Rights Commission and the Ombudsman have in the past years been strengthened but still need to be more independent and accountable.
- **Conflict:** unrests in Amhara, Oromia and Somali regions have increased political and developmental risks.

#### 3.2 Macroeconomic policy

Macro-economic policies of Ethiopia are regularly monitored by the EU Delegation in the framework of the ongoing budget support operations in the country.

The IMF 2017 Article IV consultation, carried out in September 2017 (published in January 2018) concluded generally positively on sustained growth estimated at 9% for FY 2016/17 following the severe drought conditions in 2015/2016, reduced current account deficit, growth of foreign direct investment, notably thanks to the investments in the industrial parks and privatisation inflows. Discipline is observed with regards to fiscal policies, which should lead to a deficit of around 2.5% in this fiscal year.

The Growth and Transformation Plan II is running from 2015/16 to 2019/20 under the assumption of sustained average annual growth around 11%. Despite its overambitious targets, limited information about the financial sustainability of the investments foreseen, and lack of an overarching strategy to address inclusiveness and growing inequalities, the second phase of this national policy is rightly oriented towards improved competitiveness, increased export diversification and better integration into global value chains based on a push for further structural change of the economy.

Seemingly in line with IMF and World Bank's previous recommendations and with the aim of boosting export earnings and reducing the import bill, the Central Bank ordered a 15% devaluation of the Ethiopian Birr in October 2017 together with a set of appropriate accompanying directives aimed at limiting its negative impacts.

With respect to the balance of payments, and following limited improvements of the trade balance, the current account deficit (including official transfers) narrowed down to 8.1% of GDP (from 9.2% the previous year) at USD 6.5 billion

The Reserve Adequacy Assessment from the IMF continues to underline that Ethiopia's foreign exchange reserves are below model-based optimal benchmarks especially in a country with a heavily managed float system where optimal reserve coverage should be between 5.8 and 8.9 months of prospective imports. With a reported USD 3.1 billion at the end of FY 2016/17, the reserve coverage is only reaching 2.5 months (Government) or 1.8 months (IMF) of next year's imports of goods and services (down from 2.1 months the previous year).

The performance of the export sector has continued on a sluggish trend in FY 2016/17 (for the fourth consecutive year since the peak registered in FY 2013/14 at USD 3.3 billion) with export earnings amounting to USD 2.9 billion against a target of USD 4 billion. Over the medium term, it remains to be seen whether the government's projections of exports of goods and services (24% export revenue growth in FY 2017/18) will materialize as key infrastructure projects become operational and FDI continues to register strong growth.

As of September 2017, total outstanding public sector debt was estimated at USD 46.8 billion and debt service payment in FY 2016/17 amounted to USD 1.27 billion (57% of GDP). Under the DSA 2017, stagnant exports in FY 2016/17 combined with the maturing of NCB contracted in the last 5 years has resulted in further deterioration of two of the Debt Sustainability Analysis indicators: i) the net present value of external debt to exports (PVDE) and ii) the debt service to exports (DSE). In conjunction with a decline in external reserves and widespread foreign exchange shortage, the result is that the risk of external debt distress is now assessed as "high".

The key risks identified over the coming period include uncertainty surrounding private investments intake to populate the ambitious industrial parks development plan of the Government, associated with continued underperformance in the manufacturing and export sectors, continued foreign exchange scarcity as well as serious concerns over repayment capacity of external loans. These risks come in addition to other vulnerabilities, such as lack of accountability and poor governance, lack of a minimum wage policy and weak decent work policy, a growing population, limited availability of financial resources, high current account deficit and exposure to exogenous shocks (e.g. climatic variations, volatility of commodity prices and regional instability).

***On that basis, the EU assessment is that the Ethiopian authorities pursue a stability-oriented macroeconomic policy. However important risks remain with regards to debt sustainability, limited domestic revenue mobilisation, and low foreign exchange reserves.***

### **3.3 Public Financial Management (PFM)**

The PFM system is undergoing a transition with two developments in 2017: 1) the development of a new PFM strategy that includes fiscal and tax policy, debt management, public private partnerships as well as financial transparency at federal level (previously, there were separate reforms for expenditures and revenues, with respectively the Ministry of Finance and Economic Cooperation and the Ethiopian Revenue and Customs Authority in charge); 2) the launching of the Tax Transformation Program that addresses issues cutting across the tax policy and tax administration. Despite their weaknesses and omissions, these two initiatives provide unprecedented opportunities for a more comprehensive and results oriented reform and improved monitoring.

The Expenditure Management and Control Programme (EMCP), which is currently the official PFM program under implementation (only on expenditures) is organised around the nine pillars that are declined in activity-based annual action plans. While these pillars are expected to contribute to all PFM dimensions, in practice, over the past 10 years, most efforts have focused on the predictability and expenditure control dimension and on the accounting, reporting and

recording. Over the years, EMCP has proven to be an effective tool to complete the first stage of the reform. Yet, as progress made, findings from external audit reports and the recent corruption crackdown show, moving towards a second generation reform requires a more comprehensive, results oriented and medium term framework that puts accountability at the centre, together with domestic revenue mobilisation (dimensions that were not tackled by EMCP).

The Basic Service Delivery Group Common Framework is the main forum for dialogue on the EMCP performance. All activities mentioned in the Common Framework have been launched or achieved, with the major breakthroughs being: amendment to the proclamation on Public Finance Administration (measures to improve internal audit and follow up/correction of internal/external audit, including penalties); launching of the new Financial IT system (IFMIS) roll out; creation of the National Accountancy and Audit Board. Actions planned under procurement have also progressed, with the introduction of e-procurement and the performance indicators already under implementation.

After years of dialogue, the Government announced the development of a second generation PFM Reform Strategy. This is certainly the most important and positive development in the PFM field in the past years. The new PFM Strategy will deepen EMCP activities and expand its scope to encompass new areas such as fiscal and tax policy reforms, public private partnerships, debt management and financial transparency at federal level. The draft has recently been shared with the donors and a consultation workshop for its finalization is planned in the coming months.

**Domestic Revenue Mobilisation** is one of the weakest areas of PFM. The continuous low tax to GDP ratio and tax buoyancy levels as well as the recent tax protests (August 2017) suggest that so far reforms were not fully addressing underlying challenges at an adequate pace and in an appropriate way to achieve GTP II targets. The tax to GDP in 2016/17 fell to 11.6% from 12.5% in 2015/16 and the share of tax revenue expenditure financing fell from 79% in 2015/16 to 76% in 2016/17. Although the political and social context could partly explain the low performance during 2016/17, until now, the most important factor relates to the structural factors related to the ineffectiveness of the reform to address challenges.

*On that basis, the EU assessment is that the public finance management reform strategy remains sufficiently relevant and credible ad that progress is satisfactory.*

### 3.4 Transparency and oversight of the budget

**The entry point for the fulfilment of the eligibility criterion on transparency and oversight of the budget continues to be met.** The enacted budgets for the fiscal years 2016/2017 (EFY 2009) and 2017/18 (EFY2010) were approved by Parliament on the 5<sup>th</sup> of July 2016 and 7<sup>th</sup> of July 2017 respectively according to the law and published in the Negarit Gazette (Official Journal).

However, public access to key fiscal information remains a major weakness, as not all budget documentation<sup>8</sup> is available to the public. In addition, while the Proclamation for the Federal Government Budget EFY 2009 was published in the Negarit Gazette, none of the other budget

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<sup>8</sup> Budget documentation consists of: 1) Budget Summary ; 2) Volume I: narrative and quantitative report summarising past trends in revenue and expenditures, inflation, export and import growth, exchange rates, previous year performance at aggregate level, forecast for economic growth and key macro-economic assumptions, and impact analysis of new fiscal policy measures; 3) Volume II: detailed list of all revenues sources and expenditures planned for the budget year; 4) Volume III: a detailed list of budget programs by the Federal Budgetary Institutions with expenditure allocations for the budget year and the following year

documents were published in the website. The Federal Government Budget EFY 2010 was published and only the budget summary and volume I could be downloaded from the website

Progress during 2015/16 (EFY 2008) and 2016/17 (EFY 2009) in transparency and oversight is mixed, with some progress and new opportunities but with worrying trends as well that may hamper any real progress and may suggest limited government will.

Positive concrete progress can be registered in accounting, recording and reporting (IFMIS roll out, creation of the Accounting Board - AABE) as well as in external audit (amended Proclamation on Public Finance Administration). In addition, despite initial lack of progress, some encouraging signs and opportunities can be noted with the recent announcement that the new PFM Strategy includes Financial Transparency and Accountability initiatives at federal level and the instruction given to all budgetary institutions to publish fiscal data. Finally, the recent corruption crackdown and increased debates could be considered as encouraging signs of increased state responsiveness.

Nonetheless, the general non-conducive environment for genuine transparency and oversight is of concern, and there are no convincing indications that this will improve in the short-term. In addition, no progress has been made on the comprehensiveness of budget documentation at federal or regional level. State-owned enterprises continue to be omitted in budget documentation, undermining the monitoring of aggregate fiscal risk.

#### 4 RISKS AND ASSUMPTIONS TO A BUDGET SUPPORT OPERATION

Risks	Level (H/M/L)	Mitigating measures
<p><b>Political</b> Major challenges as regards good governance and conflicts</p> <p>Reputational risk for the EU to engage in support to industrialisation if the decent work agenda is not effectively pursued</p>	<p><b>H</b></p> <p><b>M</b></p>	<p><b>Political level:</b> Pursue EU and MS Art. 8 and technical dialogues, as well as follow-up to the sectoral dialogue on governance and human rights under the Strategic Engagement; Donor Assistance Group dialogue and monitoring; Government measures: Discussion forums involving different stakeholders; social accountability institutionalization.</p> <p><b>Operational level:</b> Involvement of civil society and EU to support to democratic governance as planned in the NIP.</p> <p>As part of the policy dialogue supported by this operation, the decent work agenda will be linked to the industrialisation process Variable tranche indicators will incentivise progress in the decent work agenda Decent work to be included in the sectoral dialogue on governance and human rights under the Strategic Engagement;</p>
<p><b>Macroeconomic</b> Persistent macroeconomic imbalances in terms current account deficit, foreign exchange availability and debt sustainability.</p>	<p><b>M</b></p>	<p><b>Political level:</b> Discussions with the government in the framework of Article IV, Art. 8 and with the Donor Assistance Group (follow up of GTP...) Pursue Public Private Dialogue with EU business forum in Ethiopia</p>
<p><b>Developmental</b> 1. Investment Climate does not improve significantly and FDI remains limited. 2. Lack of FDI limiting employment creation targets 3. Authorities lack of commitment towards sustainable industrialization</p>	<p><b>M</b></p>	<p><b>Policy level:</b> Continue to support the dialogue between the Government and EU business forum in Ethiopia and other investor platforms; Promote EU investments in Ethiopia (Strategic Engagement and launching of sectoral dialogue on trade and investment); Policy dialogue to support the new Refugee proclamation, the Labour Law and the Ethiopian decent job agenda, including shock-</p>

<p>4. Authorities and business lack of commitment towards the implementation of the Decent Work Agenda</p> <p>5. Government budgetary support is not aligned to national Covid-19 mitigation plan, and funding is not transferred to relevant sector ministries/agencies.</p>		<p>responsible social protection strategies that cater for socio-economic needs of the most vulnerable workers during the pandemic crisis. Ensure the participation of line ministries in charge of labour and social protection to facilitate the inclusion of workers' rights to decent work and social protection into the dialogue</p> <p>Ensure the participation of social partners in the dialogue related to industrial transformation</p> <p><b>Operational level:</b> EU Transformation Triggering Facility programme (TTF); Trade enhancement and Facilitation Programme (TeFAP); Stimulating economic opportunities and job creation for refugees and host communities in support of the CRRF in Ethiopia Envisage including labour-related issues more systematically into other programmes, including capacity building of trade unions and workers' associations Variable tranche indicators to incentivise performance in delivery of the policies</p>
<p><b>Public Financial Management</b> Weaknesses remain as regards unreported Extra Budgetary Operations, public access to key financial information, tax collection, external audit and legislative oversight of audit reports and correction of audit findings.</p>	<p><b>M</b></p>	<p><b>Policy level:</b> Pursue dialogue in the PFM donor and sector working groups</p> <p><b>Operational level:</b> Pursue PFM support (new strategy) as planned in the NIP. Conduct a PEFA in 2018/19. Variable tranche indicators to encourage domestic revenue mobilisation</p>
<p><b>Corruption and fraud</b></p>	<p><b>H</b></p>	<p><b>Operational level:</b> Pursue PFM support (transparency and accountability measures as planned in the NIP.</p>
<p><b>Hypotheses</b></p>		
<p>Regional environment in the Horn of Africa remains stable, and unlikely to affect Foreign Direct Investment in the region. Ethiopia remains qualified for preferential trade measures (African Growth and Opportunity Act, Everything but Arms).</p>		

## 5 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

### 5.1 Lessons learnt

The EU is currently implementing two large budget support operations through sector reform contracts in Ethiopia, throughout which the quality of policy dialogue between the EU and the government has improved. The budget support modality has a good track record in the country, incentivising the right reforms and policies, both in the targeted sectors as well more generally in the macro-economic and PFM areas. The capacity of the Ethiopia government in managing such contracts is increasing and should allow for a smooth implementation of this contract. The EU will communicate transparently on the policy dialogues and results achieved within this programme (and others). The policy dialogues will continue to be held in connection with the political/governance/human rights dialogue with Ethiopia.

Several industrial parks have already been developed in Ethiopia. Bole Lemi (leather and textile) and Quilinto (pharma) Industrial Parks were developed 8 years ago and are the first attempts from the government toward industrialisation. More recently, the Hawassa Industrial Park (garment) is providing insightful lessons on developing industrial parks in term of employee recruitment (how to meet employers' demands), required skills development, main challenges for work productivity, main challenges for decent work, etc.

In line with the vision for an inclusive and industrial sustainable development, the Job Compact will look at lessons learnt from the Sustainable Training and Education Programme (STEP) implemented by GIZ to improve the quality of vocational training in the leather sector. It will also learn from the ILO project "Improving industrial relations for decent work and sustainable

development of the textile and garment industry in Ethiopia" in order to apply best practices from the garment sector's industrial and labour relations to the other economic sectors. In addition to this, the action will use those lessons learned from broader Commission initiatives such as the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, the Bangladesh Sustainability Compact and the Labour Rights Initiative in Myanmar.

## **5.2 Complementarity, synergy and donor coordination**

Complementarity: The EU funded project Transformation Triggering Facility (TTF) seeks to improve competitiveness in several industrial sectors (textile, leather, etc.). Other projects such as Stemming Irregular migration in North and Central Ethiopia (SINCE) and RESET will look at more direct job creation in semi-urban rural areas. The EUTF funded project Stimulating economic opportunities and job creation for refugees and host communities in Ethiopia in support of the Comprehensive Refugee Response Framework (CRRF) in Ethiopia will enhance the capacity of key actors to work along more sustainable and development-oriented lines and support individuals from both refugee and host communities. Other donors are financing complementary projects to the Job Compacts: PEPE (DFID) on improving business practices in targeted industries and the Multi Donor Initiative (IFC) on business climate.

Synergy: Two future programs considered for EU funding will create direct synergy with the Job Compact. The EUTF funded Leather Initiative for Sustainable Employment Creation (LISEC) in Ethiopia is working closely with the government and ILO to promote decent working conditions for employees in the leather sector. Several other industrial parks specialising in agro-processing for exports and import substitutions are being considered for EU support. The sectoral dialogue on investment and trade, which should be launched before the holding of an EU/Ethiopia Business Forum part of the Strategic Engagement could help on the Investment Promotion and on improving conditions for investors in the country.

**More generally, this operation will support a policy dialogue on sustainable industrialisation, which includes making important efforts in private sector development and investment promotion.** The leverage of this dialogue, including with the private sector, is expected to increase as future blending operations, notably in the framework of the European Investment Plan, are potentially adopted in Ethiopia.

Donor Coordination: **The Ethiopian Job Compact is a fully coordinated program with the World Bank, the European Investment Bank, DFID and the EU.** All donors and representatives of the government of Ethiopia sit in both the Steering Committee (chaired by the State Minister of Finance and Economic Cooperation) and the Technical Working Group. Resources have been pooled to reduce transaction costs (DFID providing technical assistance for programme design, the World Bank dedicating a team to formulate the programme and the common results framework.) Disbursement indicators for budget support operations from the World Bank, DFID and the EU will be harmonised and complementary.

The refugee-related aspects of the programme are coordinated with UNHCR and ARRA, as the Job Compact is one of the nine pledges (see section 2.2.1) and referenced in the CRRF. In this context, the recently approved EUTF action on **Sustainable Reintegration support to Ethiopian returnees from Europe** could bring valuable lessons learnt on successful economic integration of uprooted populations.

### 5.3 Cross-cutting issues

Gender: Most workers in the industries targeted by the industrial parks (textile and leather) are women<sup>9</sup>. The program will specifically focus on the gender challenges of job creation (housing, decent work conditions, etc.) as well as supporting protection mechanisms to ensure the wellbeing and safety of female workers in and outside the parks.

Environment: In view of their size, industrial parks will have significant impacts on their surrounding environment, in particular in terms of waste. Current objectives (as applied in Hawassa Industrial Parks) aim at ensuring zero liquid discharge from the parks.

The Decent Job Agenda: Following the four interrelated and mutually supportive pillars that comprise the Decent Job Agenda (i.e. employment, rights at work, social protection and social dialogue), the Compact will work towards promoting work that is productive and delivers a fair income, security in the work place, creates platforms for people to express their concerns, etc. Labour and industrial relations will be supported throughout the action.

## 6 DESCRIPTION OF THE ACTION

### 6.1 Objectives/results

The overall objective of the Job Compact Budget Support is to **enhance sustainable economic opportunities in Ethiopia**.

The specific objectives of the Job Compact Budget Support are:

1. SO 1- Support sustainable industrialisation;
2. SO 2- Create decent employment opportunities for Ethiopians and refugees;
3. SO 3- Improve the refugee regulatory framework.

Indicative Results per specific objective:

<b>SO 1</b>	<b>Support sustainable industrialisation</b>
	1.1. Improved investment climate (increased investment in Ethiopia). 1.2. Proactive, targeted and coordinated investment promotion and relationship management. 1.3. Sustainable financing of the industrialisation policy.
<b>SO 2</b>	<b>Create decent employment opportunities for Ethiopians and refugees</b>
	2.1. Industrial parks meet international norms on social, labour and environmental standards. 2.2. Improved labour efficiency in the light manufacturing sector. 2.3. Strengthened labour administration in Ethiopia.
<b>SO 3</b>	<b>Improve the refugee regulatory framework</b>
	3.1. Provision for the right to work and other labour rights in the new Refugee Proclamation.

<sup>9</sup> About 80% of the factory workforce in Ethiopia is female (UNIDO, 2015).



## **6.2 Main activities**

### **6.2.1 Budget support**

The main activities of the Budget Support operation are: a) the *Disbursement of Budget Support funds* on the basis of satisfactory assessment of eligibility criteria (see criteria in 7.3.2.) (*fixed tranche*); and performance on the targets of trigger indicators (*variable tranche*); and b) the holding of regular *result oriented policy dialogues* (together with other Development Partners) on the basis of agreed performance indicators.

### **6.2.2 Complementary support**

EU will not fund additional complementary measures to the ones already described in chapter 5.2., as DFID will allocate a significant amount of its contribution to capacity building through a Multi Donor Trust Fund (circa GBP 30,000,000).

## **7 IMPLEMENTATION**

### **7.1 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

### **7.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 6.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) No 322/2015.

### **7.3 Implementation of the budget support component**

#### **7.3.1 Rationale for the amounts allocated to budget support**

The amount allocated for budget support component is EUR 30 000 000, and for complementary support is EUR 30 000 000. This amount is based on:

1. The expected costs of building the Industrial Parks;
2. The needs for skill development and training for 100 000 workers;
3. The specific needs of the refugee population working in/out the Industrial Parks;
4. The improvement of the Business Climate and to attract Foreign Direct Investments;
5. The need to improve the labour standards and conditions, including through capacity development;
6. The needs to improve tax effectiveness and efficiency;
7. The other contributions from other Donor Partners.

#### **7.3.2 Criteria for disbursement of budget support**

a) The general conditions for disbursement of all tranches are as follows:

1. Satisfactory progress in the implementation of the Industrial, the Refugee and the Labour Policies and continued credibility and relevance thereof;
2. Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
3. Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
4. Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are the following:

Upon approval of this action by the EUTF Operational Committee, a maximum of 12 performance indicators will be selected and agreed with the Government and other Donor Partners (World Bank and DFID) on the definition, target, calculation and weighting of each trigger indicators. Interested EUTF contributors will be associated to the process. These performance indicators could fall under the six priority areas identified and ensuring a mix of process, output and outcome indicators.

1. Investment Climate
2. Investment Promotion
3. Infrastructure Development
4. Refugees integration
5. Productivity and decent work
6. Domestic Revenue Mobilisation

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Government of Ethiopia may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### ***7.3.3 Budget support details***

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Ethiopian Birr will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

Based on the discussions with different stakeholders and decisions made on the Annual Action Plan, the budget support consists of EUR 30 000 000 over a three-year period with annual disbursements composed of:

- A fixed tranche on satisfaction of eligibility conditions and pre-conditions;
- Variable amounts linked to satisfactory performance/trigger indicators.

The phasing of disbursements is EUR 10 000 000 in year one, and EUR 20 000 000 in quarter 1 year 2. The table below illustrates the envisaged timing for the release of budget support funds, which will allow integration of the funds in EFY 2013 budget (2019 Gregorian calendar)

and help avoid financial gaps in service. Having 1 variable tranche in the second year will also allow keeping up the momentum in policy dialogue.

1 <sup>st</sup> tranche 1 <sup>st</sup> quarter 2019	2 <sup>nd</sup> tranche 1 <sup>st</sup> quarter 2020
Only Fixed Tranche EUR 10,000,000	2 <sup>nd</sup> fixed tranche: EUR 5,000,000 and 1 <sup>st</sup> Variable Tranche EUR 15,000,000

**Determining variable tranche payments**

The performance assessment for the Job Compact Sector Reform Contract shall be an inclusive process led by the Government, whereby performance results are also subject to stakeholder consultations and are made publicly available and feed into domestic accountability mechanisms. The results for variable tranche indicators can then be extracted from the overall policy review process, subject to EU Delegation views on the accuracy of the information. Where serious doubts exist about the quality of the data provided, data verification exercises will be carried out to inform payment decisions.

In view of this, determining the variable tranche payment involves attributing a specific amount for each performance indicator.

**7.4 Indicative budget**

	<b>EU contribution (amount in EUR)</b>	<b>Indicative third party contribution, in currency identified</b>
7.3.- Budget support Sector Reform Performance Contract	30 000 000	World Bank USD 250 000 000; EIB EUR 200 000 000; DFID GBP 80 000 000
8.2 – Evaluation, 8.3 – Audit	will be covered by another decision	N.A.
8.4 – Communication and visibility	N.A.	N.A.
Totals	30 000 000	USD 250 000 000; EUR 200 000 000; GBP 80 000 000

**8 ORGANISATIONAL SET-UP AND RESPONSIBILITIES**

The Ministry of Finance and Economic Cooperation (MoFEC) will remain the lead coordinator for this operation for the Ethiopian Government. The Job Compact Steering Committee (chaired by the State Minister of Finance and Economic Cooperation) will continue to be the coordinating forum between the Donor Partners (the World Bank, the European Investment Bank, DFID and the EU) and the different government services and institutions (relevant Ministries, Ethiopian Investment Commission, Administration for Refugee and Returnees

Affairs, etc.) The Technical Working Group will continue to provide the technical inputs for the program.

The different departments of MoFEC (bilateral cooperation, multilateral cooperation, EU cooperation) will provide the necessary reporting for the programs for results (World Bank and DFID), the budget support (from EU) and the project loan (from EIB).

### **8.1 Performance monitoring and reporting**

The Ministry of Finance and Economic Cooperation, implementing bodies and Development Partners will conduct periodic monitoring, jointly and bilaterally.

During implementation of the budget support, the Ministry of Finance and Economic Cooperation (MoFEC) will be in charge of providing the required documents to the EU Delegation as well as of reporting progress against the PFM and Transparency annual monitoring plans in a consolidated manner. All performance reports prepared by the implementing partners are expected to be submitted to MoFEC and the EU Delegation.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

### **8.2 Evaluation**

Having regard to the nature of the action, a final evaluation might be carried out for this action or its components.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

### **8.3 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. The Akvo RSR<sup>10</sup> on-line reporting platform, which is available to the public, will be used to communicate and report on this action as well as on all project components. Akvo RSR links directly to the EUTF website. The project logical frameworks will be encoded in their respective Akvo pages and regular reporting of project activities and outputs will take place on this platform.

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<sup>10</sup> Akvo Really Simple Reporting

## **9 PRE-CONDITIONS**

Adoption of the "Refugee Proclamation" by the Council of Ministers and transmission to the House of People Representatives.

**10 INTERVENTION LOGIC FOR BUDGET SUPPORT: *THIS IS A PRELIMINARY INDICATIVE MATRIX, WHICH WILL BE AMENDED BEFORE SIGNATURE OF THE FINANCING AGREEMENT. THE REVISED MATRIX WILL BE PRESENTED VIA AN AMENDMENT OF THIS ACTION DOCUMENT, TO BE APPROVED BY THE OPERATIONAL COMMITTEE OF THE EUTF***

	<b>Results chain</b>	<b>Indicators – all indicative at this stage</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources and means of verification</b>
<b>Overall objective: Impact</b>	Enhanced sustainable economic opportunities in Ethiopia				
<b>Specific objective(s): Outcome(s)</b>	1. Supported sustainable industrialisation	Progress in the implementation of the Ethiopia Industrial Development Strategic Plan 2013-25			Monitoring and Evaluation framework of the plan

Expected results	1.1 Improved investment climate (increased investment in Ethiopia)	<p><b>Public-private dialogue:</b></p> <p><u>Performance indicator:</u> 2 high level conference/year with corresponding follow up commitment produced</p> <p><u>Policy dialogue:</u> progress on follow up actions in 2019 and 2020</p>	Tbc (2018)	Tbc (2019)	EIC PPD Platform minutes
		<p><b>Dialogue on Business climate:</b></p> <p><u>Performance indicator:</u> Doing Business index improved (score on Trading across borders)</p> <p><u>Policy dialogue:</u> progress in trucking capacity and opening of the sector to private operators / Progress on full deployment of ERCA CMS</p>	Tbc (2018)	Tbc (2020)	EIC Doing Business Action Plan, and World Bank DB index
	1.2. Proactive, targeted and coordinated investment promotion and relationship management	<p><b>Attraction of targeted foreign investors: <u>Performance indicators:</u></b></p> <p>Ethiopian Investment Commission (EIC) IT System* installed and fully functional <b>or</b> Adoption of 10 years Investment Promotion Strategy</p> <p>Progress in number of targeted investments facilitations delivered by EIC to FDI</p> <p><u>Policy dialogue:</u> FDI data collection/compilation harmonized with other agencies and embassies/ Investment Protection (international arbitration, EU investment treaty,...)</p>	Tbc (2018)	Tbc (2019)	EIC reports, online web site verification, data set on investment licenses
		<p><b>Infrastructure/utility development:</b></p> <p><u>Performance indicators:</u></p> <p>Effective &amp; appropriate power access in Mekele park</p> <p>Container yards established/functional in Dire Dawa park</p> <p><u>Policy dialogue:</u> transport policy, water policy, city master plannig</p>	Tbc (2018) Tbc (2018)	Tbc (2019) Tbc (2020)	EIPC report, EMAA report
1.4. Sustainable financing of the industrialisation policy	<p><b>Domestic revenue mobilisation:</b></p> <p><u>Performance indicators:</u></p> <p>Increased audit performance of the large tax payers' unit in the manufacturing sector</p> <p>Establishment of a regular cost effectiveness review of existing tax incentives as part of the budget cycle</p> <p><u>Policy dialogue:</u> measures to increase tax base and to set targets based on evidence (tax efforts studies). Action plan to increase the transparency in granting tax incentives</p>	Tbc (2018) Tbc (2018)	Tbc (2019) Tbc (2020)	ERCA and MOFEC reports	

Specific objective(s);	2. Increased employment opportunities for Ethiopians and refugees	Increase in the number of Ethiopian and refugees decently employed in the industrial sector			
Expected results	2.1. Industrial parks meet international norms on social, labour and environmental standards  2.2. Improved labour efficiency in the light manufacturing sector  2.3. Strengthened labour administration in Ethiopia	<b>Refugee's access the labour market:</b> <u>Performance indicators:</u> Labour inspections and labour inspection reports collect data on refugees working at industrial parks/factories # of residence permits (allowing right to work) issued among refugee working-age population <u>Policy dialogue:</u> implementation of Refugee proclamation, in particular in those areas related to documentation (birth registration, residence permits, etc.), local integration, out and camp and protection mechanisms / Labour law/safety and protection mechanisms applied to refugees workers in industrial parks  <b>Labour conditions:</b> <u>Performance indicators:</u> Establishment of a wage commission Disclosure of MoLSA's annual labour inspection reports, and correction mechanisms <u>Policy dialogue:</u> Labour law enforcement in IPs+ establishment of a minimum wage package	Tbc (2018) Tbc (2018)	Tbc (2019) Tbc (2020)	Refugee proclamation, ILO, UNHCR, ARRA, MoLSA  ILO disclosure report / MoLSA inspection report
Specific objective(s)	3. Improved refugee regulatory framework.	Implementation of the refugee proclamation			
Expected results	3.1. Provision for the right to work and other labour rights in the new Refugee Proclamation	<u>Policy dialogue:</u> implementation of Refugee proclamation, in particular in those areas related to documentation (birth registration, residence permits, etc.), local integration, out and camp and protection mechanisms / Labour law/safety and protection mechanisms applied to refugees workers in industrial parks			

\* Measure on IT system depending on possibility to mobilize funding under TTF)



## **APPENDIX 2- INTERVENTION LOGIC AND INDICATIVE THEORY OF CHANGE**

**Figure 1: Ethiopia Jobs Compact - Theory of Change**

