PROGRAMME FOR COUNTRY PARTNERSHIP ETHIOPIA

SUMMARY

iSID
INCLUSIVE AND SUSTAINABLE INDUSTRIAL DEVELOPMENT

UNIDO
UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ACRONYMS AND ABBREVIATIONS

AGOA	African Growth and Opportunity Act
DAG	Development Assistance Group
DFID	Department for International Development
DGGE	Development Assistance Gender Working Group
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GVP	Agricultural Sector Policy and Investment Framework
IAIP	Integrated Agro-Industrial Parks
IDIS	Industrial Development Institutional Setup
IDSP	Industrial Development Strategy Plan
ISID	Inclusive and Sustainable Industrial Development
LC	letter of credit
LIDI	Leather Industries Development Institute
MLC	Modjo Leather City
MoFED	Ministry of Finance and Economic Development
MoI	Ministry of Industry
NIDC	National Industrial Development Council
ODA	Overseas Development Assistance
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PCP	Programmes for Country Partnership
PIF	Agricultural Sector Policy and Investment Framework
RTC	Rural Transformation Center
SMEs	small and medium-size enterprises
SPS	sanitary and phyto-sanitary
TBT	Technical Barriers for Trade
TIDI	Textile Industries Development Institute
UNCT	UN Country Team
UNDAF	UN Development Assistance Framework
UNDP,	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
WB	World Bank
WTO	World Trade Organization

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1. INTRODUCTION

The United Nations post-2015 development agenda reinforces the international community's commitment to poverty eradication. One of the major items on this agenda is inclusive and sustainable industrial development (ISID), the core of the new mandate given to UNIDO by the 2013 Lima Declaration. To set the stage for the pursuit of this mandate, the Director General of UNIDO convened the First ISID Forum, which took place on 23 and 24 June 2014. The event engaged the Organization's Member States in a strategic dialogue on how to formulate inclusive and sustainable industrial development strategies and policies. It also asserted UNIDO's role in promoting smart policies and innovative business models for ISID.

The key outcomes of the First Forum served as the foundation for this second event, underpinning confidence in well-structured partnerships for ISID. This Forum aims to pilot the development of innovative partnership business models to implement ISID strategies. The main thrust behind the partnership business model is the mobilization of external partners and resources to increase the impact of UNIDO's technical cooperation.

Through partnerships with governments, development finance institutions, UN agencies, multilateral and bilateral development agencies, civil society, and the private sector, the Organization is to have a much larger impact on the ground with its technical expertise being applied according to the needs of Member States and benefiting from the resources of financial institutions and private industry.

The first ISID-Programme for Country Partnerships (ISID-PCPs) will be piloted in Africa, the region currently most in need of ISID assistance. Two countries have been selected: Ethiopia, in English-speaking East Africa, and Senegal in French-speaking West Africa. The ISID-PCP will demonstrate five main characteristics: (i) a strong country ownership; (ii) a clear reflection of UNIDO's ISID objectives; (iii) a close alignment with national resource mobilization strategies and the potential to scale up technical cooperation services through the establishment of partnerships; (iv) an opportunity to deploy a multi-disciplinary array of UNIDO services; and (v) rigorous monitoring and reporting mechanisms, which will allow Member States and partners to measure the concrete benefits of this new approach.

In June 2014, the Director General of UNIDO fielded senior managers from the Organization's technical cooperation division to Ethiopia to discuss with Government officials and representatives of development financial institutions, bilateral development partners, and the private sector the design and formulation of the Programme. Encouraged by the strong commitment of the Government of Ethiopia and other partners to this initiative, UNIDO sent team of experts from its specialized branches to Ethiopia in September 2014 to initiate the development of the PCP. This report is an outline of the detailed ISID-PCP for Ethiopia being developed by the team.

The Program is expected to lead to the development of integrated investment plans and a strategy to expand job creation and reduce poverty while preserving the environment.

2. COUNTRY CONTEXT AND RECENT DEVELOPMENTS

Ethiopia is a federal democratic republic with nine states and two city administrations. With an estimated population of 94 million, it is the second most populous country in Africa. It borders on Sudan and South Sudan to the west, Eritrea to the north and northeast, Djibouti and Somaliland to the east, and Somalia and Kenya to the south.

Ethiopia is one of the continent's fastest growing economies. The country's gross domestic product (GDP) was US$46.87 billion in 2013, with a growth rate of 10.4% the same year and an average growth rate of 10.9% since 2004. The rate of growth is projected to average 7.3% from 2015 to 2018.

Economic growth is largely driven by government-led development policies, with a rapid expansion of public infrastructure and basic services. Increasing exports and foreign direct investment (FDI) have also fuelled growth.

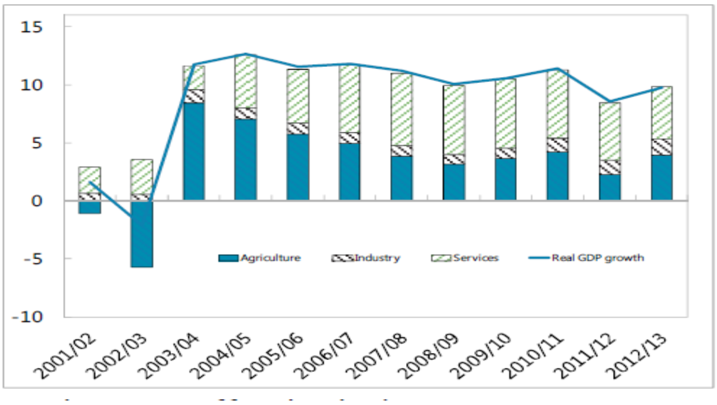

Figure 1: GDP growth per sector (IMF)

Ethiopia remains a predominantly rural country, with only 17.5% of the population living in urban areas, mainly Addis Ababa. Between 2009 and 2013, it experienced a steady population growth rate of 2.6%. Buoyed by a growing economy, income per capita has doubled from US$270 in 2006/7 to US$550 in 2012/3.[1] The percentage of people living below the national poverty line dropped from 38.9 in 2004 to 29.6 in 2011.

Aware of the importance of roads and other infrastructure for the development of agriculture, industry, mining and tourism, the government has given a high priority to improving the road network. A new 781km route eastward to Djibouti is being built, the shortest distance from Addis Ababa to a seaport; it is expected to transport 11.2 million tonnes of freight in 2016, its first year of operation, and 24.9 million tonnes by 2025. The budget earmarked for road construction and repair is approximately US$4 billion for the next ten years, with the World Bank providing US$309 million, the European Union US$300 million, the African Development Bank US$104 million, while the investment share of the Ethiopian Government will be US$940 million. The Grand Ethiopian Renaissance Dam under construction will be the site of the largest hydropower plant in Africa; with a generation capacity of 6,000MW, the plant will eliminate the current shortage of electricity available to industries.

Ethiopia began to liberalize its trade policy in the 1990s with a resulting increase in trade. Exports and imports of goods and services increased from 37.5% of GDP in 2001/02 to 48.7% in 2011/12.[2] Strong demand for Ethiopia's main commodity exports, coffee and gold, has helped boost economic growth over

the past decade. Agricultural commodities, such as coffee and oil seeds, which generate approximately US$3 billion annually, dominate the country's export earnings. Exports of manufactured products account for less than 10% of total exports of goods. However, the recent expansion in the leather and footwear industries, partly due to substantial FDI inflows, is expected to boost exports of manufactured products.[3] Annual imports are valued at over $11 billion; in 2012, the main imports were mineral fuels, oils and distillery products, machinery, vehicles, electronic equipment, pharmaceuticals, and iron and steel.[4] Both import substitution and export expansion are key objectives of Ethiopia's development strategy.

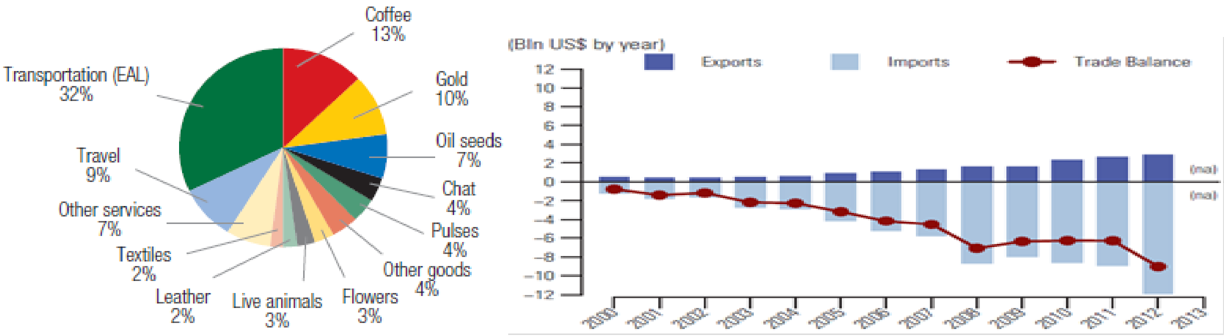

Figure 2: Export performance by sector and trade deficit (2000-2013). UNCTAD.

A growth strategy led by the public sector and centred on high public investment has been instrumental in delivering economic growth. Public investment currently represents 19% of GDP and is the third highest in the world. Government spending is expected to increase by 12% to US$8.3 billion in 2014, with one-third of the total allocated to upgrading the road network.

Other key public investment areas include the development of the railway network and industrial zones. These efforts are expected to encourage trade and investment (both domestic and foreign) and are complemented by the revision of the investment code and the restructuring of the Investment Agency to establish a one-stop service for private investment support.

Since 2000, FDI inflows have increased in real terms, but have been unsteady relative to GDP. 2013 marked a high point with US$952 million flowing into the country, up from US$545 million in 2004. As a share of GDP, FDI rose from 0.4% in 2008 to 2% in 2013.

Although the amount of FDI is increasing, investors continue to face trade constraints, most notably related to border logistics. Djibouti, the main import-export seaport used by Ethiopia, is situated 781 km from Addis Ababa, which makes the cost of land transportation a critical factor.

2.1 Agriculture

Agriculture remains central to the government's structural transformation and poverty reduction efforts. It contributes 44% of GDP and 90% of exports, uses 80% of the labour force and supplies, and yields 70% of raw material used by local industries. The abundance of unused arable land (only 11.7 million of a total of 51.3 million hectares of arable land are currently cultivated) presents a substantial opportunity to increase agricultural output. Access to this land, however, requires significant investment in the development of key infrastructure, such as roads and electricity. Moreover, the sector is dominated by small-holding famers cultivating two hectares or less; they account for approximately 95% of agricultural GDP, which makes organizing supply particularly difficult.

Ethiopia has the second largest livestock population in Africa, after Sudan. Livestock generates approximately 32% of GDP and is an important source of foreign exchange constituting roughly 11% of exports by value.

Although the agricultural sector has performed well over the last decade, challenges remain. Improving infrastructure for agricultural development remains a priority for the Government, and there are many on-going infrastructure development projects to expand the road network and power supply and create agro-industrial zones.

2.2 Industry

Structural change, the shifting of resources – especially labour – from agriculture to industry is an important aspect of Ethiopia's economic development strategy. The country's industrial sector is relatively small, accounting for 11% of GDP in 2012, to which manufacturing contributed 33% (or 4% of the overall GDP). The contribution of manufactured products to total exports does not exceed 5% of GDP. Currently, there are 2,170 medium-size and large industrial enterprises in Ethiopia. More than 40% of manufacturing is located in Addis Ababa, 23% in the Oromiya region and 11% in Amhara. Approximately 32% of manufacturing is in the food and beverage sector, and although manufacturing has grown in terms of value, it remains a small contributor to GDP and employment. In urban areas, approximately 13% of the employed population is engaged in manufacturing.

3. CURRENT DEVELOPMENT STRATEGIES AND PARTNERS

The Ethiopian Government has already formulated an industrial development strategy with clearly defined objectives, targets, budgets and institutional setups required for implementation. Three key overarching policy documents were developed to guide interventions in the sector over a 13-year period (2013-2025). These are: the Industrial Development Roadmap (IDR), which provides a strategic framework for industrial development for the next ten years; the Industrial Development Strategy Plan (IDSP), which defines strategies, programmes and projects for the implementation of IDR; and the Industrial Development Institutional Setup (IDIS), which provides an institutional framework for industrial development.

The strategy is guided by Vision 2025, which aims to transform Ethiopia into a middle-income country by 2025. With this objective in mind, the Government developed a number of policy documents, including: the Plan for Accelerated and Sustained Development to End Poverty (PASDEP); the Growth and Transformation Plan I (GTP I) for the period 2010-2015, to be followed by GTP II (2015-2020); and, the Agricultural Sector Policy and Investment Framework (PIF) for the period 2010-2020, as well as various other sector-specific plans.

The overall goals of these policies are to bring about structural change in the economy through industrial development, to enhance the productivity of existing light industries (agro-food processing; textiles and garments; leather and leather products), to diversify by launching new industries (heavy metal, chemicals), and to build up high-tech industries (packing, biotechnology, electronics, information, and communications).

3.1 Overseas development assistance (ODA)

Ethiopia is among the major ODA recipient countries in Africa with an average flow of US$3.6 billion per year (2009-2012)[5], and external resources finance 33% of the national budget. A very large share of ODA (30% to 50%) is humanitarian and food aid. The ODA per capita (US$36 in 2012) is however significantly less than the sub-Saharan average.

3.2 Concerted UN assistance

UNIDO works very closely with other UN agencies, especially FAO and UNDP, on a number of projects under United Nations Country Team (UNCT) programmes. The focus of this concerted assistance is on four main pillars of the United Nations Development Assistance Framework (UNDAF): Sustainable Economic Growth and Risk Reduction (Pillar 1); Basic Social Services (Pillar 2); Governance and Capacity Development (Pillar 3); and Women, Youth and Children (Pillar 4). UNIDO's activities in Ethiopia contribute to pillars 1, 3 and 4.

3.3 Development Assistance Group (DAG)

DAG was established in 2001 to harmonize donor support to Ethiopia in order to enable the country to meet the targets set in the Millennium Development Goals (MDGs). DAG also assists in the preparation, monitoring and evaluation of the country's development strategies. The DAG Executive Committee members are: African Development Bank, UNDP, EU, World Bank, DFID, Canada, Italian Cooperation, German Development Cooperation, and USAID. DAG has technical working groups dealing with specific aspects of development, such as governance, private sector development, and gender equity. UNIDO participates in the working group on private sector development.

4. PROGRAMME FOR COUNTRY PARTNERSHIP (PCP)

UNIDO has been actively involved in Ethiopia since 1968 with nearly 300 projects with a wide range of technical assistance interventions, such as vocational training, cluster building and value chain development, with a focus on food security and agro-industries development, investment promotion, private sector development, as well as renewable energy and resource-efficient and cleaner production. Moreover, between 1999 and 2008, UNIDO implemented two phases of its Integrated Programme for Ethiopia.

An independent evaluation commissioned by UNIDO yielded the following recommendations: (a) strengthening the institutional capacity development of key sectorial institutions to increase sustainability; (b) developing a sound framework for scaling up pilot project activities; and (c) establishing a sound resource mobilization strategy, including public-private partnerships. These goals constitute the basis on which the Partnership Country Programme for Ethiopia is being designed within the framework of UNIDO's new mandate to promote and support Inclusive and Sustainable Industrial Development (ISID).

The Programme is being developed through an extensive consultative and collaborative process with the Government of Ethiopia in pursuit of the Government's goal to elevate the country to middle-income status within a decade. To sustain the growth that Ethiopia is experiencing, higher-productivity activities such as manufacturing are the right option in the endeavour to shift a significant share of the workforce out of low-productivity agriculture and informal sectors.

The Industrial Development Strategy Plan of Ethiopia provides the overall framework in terms of the vision, goals, strategies, and programmes needed in the coming thirteen years to support the country's progress towards becoming a middle-income country by the year 2025. The Plan also identifies major constraints to industrial development in Ethiopia, which include inadequate human resource capability (both technical and managerial), a shortage of foreign exchange to import important raw materials, machinery and spare parts, disruptions in electricity supply, and inadequate access to credit. Other constraints are limitations with respect to strategic agriculture-industry linkages, provision of working capital, technology transfer, transport and logistics services, the alignment of the training system with the demands of industry, low capacity utilization, and standardization and quality control services.

This multitude of constraints facing the industrial sector cannot be eliminated in the short term as they cut across many sectors in addition to manufacturing. Solving the problem of inadequate manufacturing inputs requires solving issues in agriculture, education, and physical infrastructure, which entails close coordination and will take a longer period of time. The Government has realized that more focused and programmatic approaches are required to remove critical constraints that affect a few key sectors.

The Government's Growth and Transformation Plan (GTP) sets ambitious targets for improvements in trade logistics by rolling out the authorized economic operator programme across export-oriented industry parks, and by improving the main export corridor to Djibouti.

Ethiopia has abundant natural resources that can provide valuable inputs to light manufacturing industries serving both domestic and export markets. These resources include cattle for leather and leather products, cotton for textile and apparel, and farmland for agro-food processing.

Learning from the successful performance of the cut flower and fruit and vegetable products in foreign exchange earnings and job creation, Ethiopia is now focusing on textile and garment, leather and leather products, and agro-food processing sectors. These industrial sectors hold the prospect of employment for low-skilled young people, increased export earnings, benefits to local SMEs, and farmer access to secure markets.

These sectors will also attract investment for businesses that intend to take advantage of cheaper labour costs and preferential access to large markets, such as those in the USA and EU (AGOA, Cotonou Agreement).

The PCP is closely aligned to the Growth and Transformation Plan (GTP) and the Industrial Development Strategy of Ethiopia. Areas of UNIDO's engagement have been selected based on the country's priorities, relevance for growth and poverty reduction, as well as UNIDO's comparative advantage and potential for building partnerships and synergies with other development actors. The PCP will focus on three light manufacturing sectors, namely agro-food processing, textile and apparel, and leather and leather products, which have the potential to deliver significant results over a relatively short time. These sectors will act as a springboard for the transformation of the Ethiopian economy from an agriculture-based economy to one driven primarily by light industries.

While there are many on-going initiatives in Ethiopia to promote labour-intensive sectors, a more systematic approach to investment is required with a focus on private sector development.

The main issues to be addressed during the implementation of the PCP are:

- A limited and costly supply of raw material (industrial inputs). For example, wheat costs US$300-350 per tonne in Ethiopia compared to US$200-250 in China and Vietnam.
- Weak institutional capacity and coordination among different institutes that facilitate investment and support the private sector.
- High costs of port and terminal handling, customs clearance, preparation of documents and letters of credit make import-export activity uncompetitive. The cost per container is approximately US$500 in China and US$645 in Vietnam compared to up to US$3,000 in Ethiopia.
- Finance is not easily available to small firms for capital items and working capital. In addition, there is a high cost of foreign exchange (the national bank charges a 1.5% foreign exchange commission fee for dollars needed to import industrial inputs).
- Shortage of highly skilled manpower, including financial experts, technicians and engineers.
- Low capacity utilization. Most of the medium-size and large industrial companies mainly operate at less than 60% capacity due to lack of raw material.

Based on identified problems and opportunities, the PCP is designed along focus sectors and crosscutting interventions to stimulate and further strengthen industrialization processes in Ethiopia.

4.1 Focus sectors

4.1.1 Agro-food processing

Agro-industries account for the largest share of manufactured goods with food and beverages constituting about 52%.[6] The sector employs 60,110 people, both in SMEs and publicly and privately owned larger companies. Agribusiness development is crucial due to the close connection to the agricultural basis of the Ethiopian economy. The strong linkages to the rest of the economy and the use of abundant agricultural products as inputs create a positive climate for the development of agribusiness. An improved investment climate alone has not been sufficient to attract investors to the agro-processing sector in places where there is a high economic potential; this has been mainly due to lack of proper infrastructure and the consequent inadequate supply of raw material. In 2010/11, of 686 food-processing companies, 482 were operating under capacity, and 251 of the latter reported that their performance was affected mainly by raw material shortages.

Integrated agro-industrial parks can transform Ethiopian agricultural production from being fragmented and supply-driven to becoming organized, safe, demand-led and quality-oriented. UNIDO in collaboration FAO and UNDP and with funding from Italian Cooperation is finalizing a feasibility study and business plan for four Integrated Agro-Industrial Parks (IAIPs). Eighty Rural Transformation Centres (RTCs) will also be established around the four parks, to which farmers within a radius of 100km will be able to sell their produce.

The RTCs will also serve as points of aggregation where private sector investments can promote key input markets such as fertilizers and hybrid seeds. The centres will also establish primary processing, cold and dry storage facilities, and improved agro-logistics systems.

It is expected that the IAIPs will host 90 large foreign and domestic companies, will create 80,000 jobs in rural areas, and will link more than two million small-holding farmers to the food industries. For both on-site and off-site infrastructure, the Government has budgeted US$300 million. In collaboration with its partners, UNIDO will support the Government in mobilizing resources from DFIs and the private sector, and will set up appropriate park management systems, and one-stop services such as linking farmers and industries for the provision of raw materials.

4.1.2 Textile and apparel

Historically, many developing countries have used the textile sector as a starting point for economic and social development, with job creation as the main immediate objective. In Bangladesh, for example, the textile industry contributes 20% of the country's GDP and 80% of exports, and has created more than 4 million jobs.

Ethiopia can develop this sector successfully. A high raw materials potential, low wages and low energy costs give it a comparative advantage over other countries and regions. Ethiopia grows some of the world's finest cotton and has a rich spinning and weaving history. Presently, more than 230 large and medium-size factories and 11,800 small-scale enterprises operate in this sector. In 2011/12, their output accounted for 33% of manufacturing. In the past three years of GTP implementation, the textile and apparel sector generated a total of US$520 million in foreign exchange earnings and created 28,000 jobs. It is expected that in 2015 alone the sector's export earnings will reach US$500 million.

Raw material shortages are one of the problems faced by the Ethiopian textile and clothing industries. At present, cotton is grown on over 125,000 hectares. To meet the growing demand for cotton, the Government is working toward expanding cotton cultivation and improving cotton production, and has also resorted to cotton imports as a temporary solution. An insufficient supply of quality raw materials, weak spinning and ginning industries, lack of skills, low capabilities in institutions that provide support to the sector along the value chain, and, most notably, weak trade logistics are all significant obstacles to the development of this sector.

The Textile Industry Development Institute (TIDI) was established by the Ministry of Industry to provide investment promotion, consultancy, training, research and marketing services and thereby boost the sector's competitiveness.

In recent years, a number of foreign garment companies have invested and/or are licensed to operate in Ethiopia. Among them are AYKA, Asda, and TUSKON (Turkey), Phillips Van Heusen and Wal-Mart (US), Jiang Lianfa Textile (China), Tesco (UK), Primark (Ireland), and H&M (Sweden). Jiang Lianfa is planning to establish a textile factory in Addis Ababa at a cost of over US$500 million. Total investment in the textile sector in the last five years has exceeded US$1.2 billion and has created more than 50,000 jobs.

In collaboration with its partners, UNIDO will support the Ethiopian Government and private sector to promote investment, increase the supply of quality raw materials, improve the skills of the workforce, build the capacity of support institutions, and significantly improve trade logistics.

4.1.3 Leather and leather products

With approximately 35 million cattle, 39 million sheep and goats, 8.6 million equine, and 1 million camels, Ethiopia has the largest livestock in Africa and ranks ninth in the world. These animal resources provide annually 2.7 million tonnes of hides, 8.1 million tonnes of sheepskins and 7.5 million tonnes of goatskins. The Government plans to fully utilize these resources through value addition and thereby create more jobs and boost exports. The leather and leather products value chain is already one of the most successful sectors of Ethiopia's economy due to its strong backward linkages to the rural economy and its labour-intensive nature.

There are large and medium-size firms in the formal sector, but also microenterprises operating in the informal sector of the economy, particularly in footwear manufacturing. Among the 141 large and medium-size companies, the majority (87) are located in the Addis Ababa city administration area.[7] There are also more than 3,000 small-scale shoe manufacturers with a combined capacity of 5 million pairs per year and a significant potential to meet the standards of high-end markets for footwear, gloves and other leather goods.

During the fiscal year 2012/2013, over 68.33 million square meters of leather were processed into footwear for both the domestic and international markets, contributing 44.1% of the manufacturing sector.[8] The industry currently employs approximately 14,000 people.

Factories currently operating with significant amounts of FDI include the Huajian factory located in the Chinese Eastern Industrial Zone near Addis Ababa and Taiwan's George Shoe factory at the Bole Lemi Industrial Zone.

Important issues facing the industry as it strives to strengthen its capabilities in the face of increasingly fierce global competition include shortages in the supply of hides and skins, out-dated equipment, insufficient skilled labour, low capacity utilization (tanneries operate well below 50% of their installed capacities), and the lack of a price incentives reflecting a premium for superior quality. A long-term solution would be the development of a commercialized livestock sub-sector that would also support the emergence of a robust meat industry.

The Ministry of Industry targets an increase in exports of leather and leather products from US$170 million in 2012 to USD$1.4 billion by 2020, which would also create 350,000 new jobs.

To assist the Government of Ethiopia in developing a leather cluster on the basis of the existing concentration of tanneries in Modjo, UNIDO has finalized a feasibility study regarding the establishment of the Modjo Leather City (MLC). Some 30 companies could be clustered at MLC with an aggregate workforce of 45,000. The estimated budget for setting up MLC is US$61 million.

UNIDO will support the Government in the mobilization of resources for MLC. The Organization will also help establish four footwear and leather goods clusters with a budget of US$20 million as well as strengthen the fashion design and training capabilities of the Leather Industry Development Institute (LIDI) with an estimated budget of US$10 million.

This presents an opportunity that can be extensively utilized taking into consideration Ethiopia's more than 80 years of experience with European producers and the newly created supply links to China.

4.2 Crosscutting issues

4.2.1 Industrial zones, investment promotion, and South-South cooperation

Industrial zones (parks) provide enterprises with good basic infrastructure (roads, energy, water, sewerage, telecom services) and inexpensive land. They can also provide restructured public services and policies, skill development and rental/lease shells.

The Government of Ethiopia believes that industrial zones address many of the challenges identified with respect to the development the country's industrial sector. Industrial zones provide a catalyst for private investment, as proven by the large number of foreign investors establishing production facilities in such environments. Industrial zones offer the opportunity to link local small local suppliers to the resident manufacturers, allowing local firms to access global value chains. Funding for the establishment of industrial zones comes from private and public sources, and with encouragement from the Government, foreign investors have contributed a substantial amount of funding. The Government has also invested considerable public funds into industrial parks as part of its industrialization strategy.

The first government-run, large-scale industrial zone – the 156-hectare Bole Lemy Industrial Zone – was designed to attract export-oriented agro-processors, pharmaceutical companies, and textile manufacturers, and currently hosts about 100 large foreign companies, mainly manufacturing leather and textile products. The low cost of labour and Ethiopia's eligibility under the Africa Growth and Opportunity Act for duty-free exports to the United States have encouraged many multinational companies to relocate their factories to Ethiopia.

The Government is planning to develop four additional industrial zones (Diredawa, Kombolcha, and Hawasa), expand Bole Lemi, and provide support to several parks developed by the private sector. The new industrial zones are estimated to cost US$1.5 billion and create more than 170,000 jobs in the next five years.

UNIDO will work with partners to prepare feasibility studies, mobilize capital, promote investment, and link SMEs to larger companies operating in the industrial zones. The Organization will also help improve services rendered by support institutions, and will cooperate with its partners to ensure that infrastructure projects are aligned with potential growth corridors.

4.2.2 Improving trade logistics

Among the critical constraints to the development of light industries in Ethiopia are high freight-handling costs, high costs of financial services rendered by banks (such as letters of credit), long delays in the authorization of letters of credit, long customs procedures, high customs costs, and logistics inefficiency. Moreover, weak entrepreneurial skills, poor linkage of small enterprises to larger companies, weak local financing, and difficult access of industries to land are further hampering investment.

UNIDO will collaborate with its partners to support relevant government institutions in the following areas: (i) creation of an information and knowledge centre on import–export procedures, tariffs, best practices in logistics operations, etc. to reduce information asymmetries among businesses, public institutes and investors and improve national competitiveness; (ii) training of public officials in trade facilitation and conveying to them a better understanding of the different strategies applied by other countries; and (iii) analysis of current institutional

responsibilities and regulatory powers in order to eliminate redundancies and improve ineffective procedures in public institutions.

4.2.3 Quality standards

Ethiopia aims to join the World Trade Organization (WTO) in 2015. To do so, stricter product quality requirements must be met. In this context, the Government has reformed the National Quality Infrastructure (NQI). The mandate of the former Quality and Standards Authority of Ethiopia (QSAE) was split and the National Metrology Institute of Ethiopia (NMIE), the Ethiopian National Accreditation Office (ENAO), the Ethiopian Standards Agency (ESA), and the Ethiopian Conformity Assessment Enterprise (ECAE) were created to support existing enterprises and new investments in the three priority sectors.

In close collaboration with its partners, UNIDO will support these new institutions to fulfil their tasks effectively in the following areas; (i) identify potential quality issues across the value chain and build service capacities through QARIs; (ii) develop and implement standards/regulations and certification schemes for industrial zones; (iii) create personnel and product certification schemes; and (iv) strengthen WTO/TBT-SPS Enquiry Points.

4.2.4 Environment and energy

Energy is a key driver of industrial productivity. In most industrial parks that are in isolated areas, energy access is constrained by limited infrastructure and an unreliable power supply that regularly disrupts operations, which leads to losses of production time. In addition, the use of power and other forms of energy is not done efficiently, the consequence being higher input costs. Industrial parks can harness locally available renewable energy resources, such as bio-waste or small hydropower stations, to power their operations. In addition, a systematic and integrated approach to energy use and efficiency will result in substantial energy savings, increasing the productivity and competitiveness of industries.

In Ethiopia, an estimated 300,000 MT of animal by-products are dumped annually in open fields. Apart from the loss of a valuable economic resource, this creates an environmental problem. Using a closed-loop eco-effective approach, UNIDO is developing a programme to exploit this resource by intervening in the currently underdeveloped meat by-products segment.

UNIDO will promote the establishment of a rendering industry to generate semi-products for the downstream manufacture of a variety of industrial and food products, initially targeting seven export-oriented slaughterhouses in Modjo and Debre Zeit.

Together with its partners, the Organization will also assist the Government of Ethiopia in: (i) designing industrial complexes with superior environmental standards, and improving the management of waste, water, energy, emissions, and hazardous chemicals through targeted interventions at various stages of the leather, textile and apparel, and agro-food value chains; and (ii) establishing renewable energy sources (small hydropower stations) in potential Rural Transformation Centres (RTCs) in the next five years.

4.2.5 Policy advice, institutional capacity building, and monitoring of industrial performance

The key institutions that formulate government development policies and programmes are the Ministry of Industry (MoI) and the Ministry of Finance and Economic Development (MoFED). The latter has overall responsibility for economic policies and strategies at the federal level, as well as for budgetary and fiscal management, and financial accounting and reporting, including the management of public statistics. The Ministry of Industry is responsible for the implementation of industrial development plans in accordance with existing national policies and relevant legislation.

To achieve the economic transformation goals of Vision 2025, the Government has already established new institutions, and plans to upgrade existing ones. The National Industrial Development Council (NIDC) has been established to coordinate and monitor IDSP implementation and investment-related matters, including investment flows, industrial inputs, and marketing.

The National Industrial Development Council is comprised of representatives from key ministries and the private sector. Similarly, Regional Industrial Councils (RIC), with corresponding representation, will be established in each state and will be chaired by the Prime Minister.

Some of the main weaknesses with regard to coordination in the sector include: (i) limited participation of the private sector in public planning and decision-making processes; (ii) limited institutional mechanisms to promote foreign trade; (iii) limited capacity to develop and enforce a regulatory system to ensure controls and monitor quality standards; (iv) weak university-industry relations; (v) limited coordination between small-scale actors and medium-size and large enterprises; and, (vi) weak forward and backward linkages with other sectors/industries.

With regard to human resource capacity in institutions at the policy implementation level, there is a lack of trained staff who can address strategy and structural issues. Similarly, at the operational level, there is a lack of trained staff that can implement strategies, monitor performance and take remedial action. Aware of these constraints, the Government has established and continues to establish institutional mechanisms to coordinate various parts of the implementation of the national industrial strategy.

To support the growth of the private manufacturing sector and to achieve industrialization targets, the Industrial Development Institutional Setup (IDIS) addresses the lack of institutional capacity and proposes an institutional framework for industrial transformation. This includes the improvement of existing institutions, the establishment of new ones, as well as the strengthening of the National Industrial Development Council as the overseeing platform. In addition to this effort, the World Bank, the European Union and UNDP are providing capacity-building support. Strengthening the institutional capacity is one of the most important crosscutting factors in Ethiopia’s endeavours to capitalize on the large investment flows coming into the country, and to achieve its industrial goals.

A budget of about US$13 million has been allocated by the European Union, the World Bank, and UNDP to improve and expand capacities at the Ministry of Industry. UNIDO, in collaboration with other partners, will work to: (i) strengthen analytical capacity of the Ministry of Industry in the generation of industrial intelligence and policy (primarily in agro-industries); (ii) establish an “industrial observatory” (a monitoring and evaluation system); and (iii) leverage impact for inclusive and sustainable industrial development through South-South and tripartite cooperation.

5. SUMMARY OF THE PROGRAMME

The following table summarizes the PCP. See details in Annex I.

Issues and obstacles	PCP outcomes and indicators	Interventions	Indicative budget possible partners		
			Budget	Earmarked by Government	Funding gap
Leather and leather products sector					
- Shortage of quality processed leather - Poor trade logistics - Inadequate access to finance - Insufficient skilled workforce	- Increase in exports of leather and leather products - Baseline (2012): US$132 million - Export revenues target: US$1.4 billion - Number of new jobs	- Improve livestock value chain - Technical assistance for entrepreneurial and management skills, production diversification - IZs and clustering of MSEs	US$1.4 billion (Italian Cooperation, WB, IFC, AfDB, USAID)	US$800 million	US$600 million
Textile and apparel sector					
- Shortage and high cost of quality cotton - Weak primary processing sector - Low managerial and technical skills	- Increase in cotton production from 210,000 tonnes to 1.8 million tonnes - Yield increase from 1.7 t/ha to 2.8 t/ha - 260,000 new jobs by 2020 - Export revenues target: US$2.7 billion	- Improve cotton value chain - Increase productivity and production of ginning factories and establish new facilities - Support TIDI	US$2.3 (WB, AFDB, IFC, ATA, UNDP, UNIDO)	US$1 billion	US$1.3 billion
Agro-food sector					
- Lack of capability to attract large-scale investment - Week raw material supply - Absence of coordination among value chain actors. - Weak institutional support	- Establishment of 4 IAIPs - Establishment of 90 large companies - Export revenues target: US$1.7 billion - 160,000 new jobs by 2020	- Establish four integrated agro-industry parks and 50 rural transformation centers - Upgrade selected value chains (coffee, fruit and vegetables, livestock, fisheries) around IAIPs - Promote investment in four IAIPs, and support the establishment and operation of IAIPs	US$2.5 billion (Italian Cooperation, FAO, UNIDO, AfDB, IFC, WB)	US$1.1 billion	US$1.4 billion
Industrial zones and investment promotion					
- Weak infrastructure - Difficult access to land - Delays in establishment of industrial premises - Poor trade logistics	- Establishment of 4 industrial zones - 534 factories hosted by industrial zones - 175, 000 new jobs	- New IZs established - Two existing IZs expanded - Management of the IZs established - One-stop services provided at IZs	US$1.5 billion (WB, IFC for private sector finance; AfDB for off-site infrastructure)	US$800,000	US$700 million

The budget earmarked by the Government of Ethiopia and the funding gap are estimates (the detailed budget is under preparation by the Government).

6. DEVELOPMENT PARTNERS

The World Bank, IFC, AfDB, EU, China, Italy, FAO, IFAD and UNDP are among the key development partners operating in Ethiopia, with programmes and projects aligned with the government's GTP strategies. The development partners provide support in short and medium term intervention to improve infrastructure, agricultural productivity, gainful employment for the youth, and financial services sector. The key focus areas include private sector development, institutional capacity building, investment promotion, business climate improvement, regional integration, and infrastructure development. The following table indicates the engagement of donors in different sectors.

Development partners	Policy and business environment	Competitiveness and productivity	Infrastructure	Agriculture& food security	PSD	Capacity building
AfDB		x	x	x	x	
IFAD		x		x	x	x
IDA	x	x	x	x	x	x
IMF	x					
OFID			x	x		x
UNDP	x	x	x		x	x
FAO				x	x	x
EU Institutions	x	x	x	x	x	x
Norway		x	x	x	x	x
Portugal					x	x
Spain		x			x	x
Sweden		x			x	x
Switzerland		x			x	x
Austria		x	x		x	x
Belgium		x			x	x
Canada		x		x	x	x
Denmark		x			x	x
Finland		x	x		x	x
Germany		x	x		x	x
Italy		x	x		x	x
Japan		x	x		x	x
South Korea		x	x		x	x
Netherlands		x	x		x	x
China	x	x	x		x	x
India		x			x	x

7. PROGRAMME MONITORING AND EVALUATION

The Programme for Country Partnership will be implemented within the framework of the Government's Vision 2025 and the Growth and Transformation Plan (GTP II) 2015-2020, and will adopt the following coordination arrangements. At national level, a Joint National Task Force will be established under the leadership of a senior government official and will be composed of representatives of the private sector (chamber of industry); development partners (DAG); the Ministry of Agriculture; the Ministry of Finance and Economic Development, the Ministry of Environment; the tax authority land administration, the customs authority, the investment commission; the UNIDO Field Office, and of other partners from the public and private sector to be determined at a later stage.

The Task Force will provide strategic direction and oversee the overall implementation of PCP activities, the coordination of resource mobilization efforts, and the sequencing and prioritization of programme activities; it will also ensure coordination among the various partners involved in the programme.

UNIDO will establish a team of experts from all its relevant branches and a task leader will be appointed to coordinate the team's work. The team will hold monthly coordination meetings and provide, through the team leader and the Field Office, the necessary technical updates on programme implementation and monitoring reports to the Joint National Task Force every four months. UNIDO will establish a special fund for the initial activities of the program.

UNIDO will also cooperate closely with its partners in developing a monitoring strategy for all programmes and projects within the PCP. The M&E strategy will include project monitoring, field visits, regular provision of reports, and data collection on a biannual basis. Annual progress reports will be prepared on the status of results (outputs) and resource mobilization and utilization. The focus will be on the achievement of the benchmarks indicated in the Results Framework.

A mid-term review (during the second year) of the PCP will be carried out in collaboration with national partners. The review will seek to assess the design of the PCP, examine performance against outcomes, and assess the actual delivery against planned outputs – whether outputs are being converted into expected outcomes, and whether the strategies and partnerships are effective and efficient.

At the end of the fifth year, an in-depth independent evaluation will be carried out in collaboration with the Evaluation Group, UNIDO Regional Programme, the UNIDO Field Office, and national partners. The evaluation will be conducted to document lessons learned and outline the scope for the way forward. Regular monitoring reports will be distributed to all stakeholders to assess relevant achievements as well as to address remaining challenge.

8. THE WAY FORWARD

The current Forum is to be seen as the first milestone towards the finalization of the PCP documentation and the commencement of implementation activities under the various PCP components. Based on the inputs yielded by the Forum, the programme formulation team will finalize the detailed PCP before the end of 2014.

In the first quarter of 2015, a national task force will lead discussions among partners to quick-start the implementation of catalytic priority programmes.

During the same period (first quarter of 2015), a detailed work plan, budget and coordination mechanism for five years (a period which coincides with the planning horizon of GTP-II) will be prepared and endorsed for implementation by all partners.

9. PROGRAMME MATRIX

The UNIDO PCP structure is defined along two dimensions: (i) interventions focusing on three of the priority sectors of the Government of Ethiopia: agro-food; textile and apparel; and leather and leather products, and (ii) crosscutting interventions focusing on capacity building in institutions that support these priority sectors.

Sector-specific interventions

Strategic and functional interventions

Sector-specific interventions	Sector X	Agro-food	Leather and leather products	Textile and apparel
Crosscutting interventions		• Integrated agro-industrial park • Agro-food value chains (coffee, F&V, M&D, animal feed, edible oil) • Input supply (SHF linkages)	• Leather City in the town of Modjo • Footwear/leather products clusters • Fashion studio • LIDI to become Centre of Excellence	• Improving raw material and product supply chains • TIDI to become Centre of Excellence • Fashion studio
Capacity building		• Strengthening of analytical capacity of MoI in the generation of industrial intelligence and policy • Establishment of an industrial observatory and M&E system • Improvements in coordination of South-South and tripartite industrial cooperation		
Environment and energy		• Environmentally sound management of slaughterhouse waste, and sustainable and productive use of animal by-products • Greening of value chains: leather and textile		
Investment and industrial zones		• Comprehensive technical assistance programme for investment promotion • Linkages between foreign and local trade/industrial associations • Entrepreneurship and domestic investment • Monitoring foreign and domestic investment • Strengthening coordination and M&E mechanism (tools, methodology)		
Trade facilitation		• Strengthening institutional capacity to facilitate trade along quality value chains • Capacity building for good governance of industrial zones • Trade facilitation services for new industries • Trade facilitation and market access through improvements in quality assurance services		

UNIDO will mobilize experts from its various specialized branches (Agribusiness Development, Business, Investment and Technology, Trade Capacity Building, Energy and Climate Change, Environmental Management) to execute the programme.

Both sector-specific and crosscutting components of the UNIDO Programme for Country Programme will be developed according to a highly participatory approach involving national stakeholders. The two streams of work will strengthen each other and all efforts will be made to ensure appropriate synergies as well as coordination (geographical and sequential) of services during the implementation of the Programme.

ANNEX I: PROGRAMME MATRIX

<table>
<tr><td colspan="3">PARTNERSHIP FOR ISID – TEXTILE AND APPAREL INDUSTRIES</td></tr>
<tr><td>Objective: To improve the cotton supply chain; further increase productivity to achieve export targets in textile and garment industries; and introduce new technology to produce synthetic fibre (polyester) and technical fabrics.</td><td colspan="2">Critical problems to be addressed:
- Weak supply of inputs to textile and apparel industries
- Low productivity
- Lack of appropriate technology and competition from imported products
- Limited product diversity; low-quality products for local markets
- Weak trade facilitation capacity of TIDI</td></tr>
<tr><td>Partners: MoI, WB, AfDB, bilateral cooperation (e.g., China, India, Turkey)</td><td>Duration: 2015-2020</td><td>Indicative budget: US$2.3 billion</td></tr>
<tr><td colspan="2">Background</td><td>Outcomes</td></tr>
<tr><td colspan="2">The textile and garment sector in Ethiopia offers ample opportunities in both regional and international markets. However, fierce competition, mass customization, increased leverage of buyers, post-MFA quota-free environment, and AGOA pose both challenges and opportunities for Ethiopian enterprises. There are significant opportunities for Ethiopia to supply the regional market with cotton fabric. Production and supply chain inefficiencies along the cotton-to-textile value chain prevent Ethiopia from becoming a global player in this sector. There are good opportunities for Ethiopian garment manufacturers as Asian companies are beginning to move up the value chain. The sector includes a small number of state-owned enterprises and a growing number of private companies at all levels of the value chain. Their main activities include spinning, fabrics making, dyeing, finishing, and ready-made garments. Ethiopia also has a cotton-based traditional handloom industry with a large number of traditional weavers. The country is now beginning to attract international buyers and investors. In the 2011/12 budget year, it earned US$84.63 million from the sector's exports. The Government established the Textile Industry Development Institute (TIDI) under the Ministry of Industry with the mission to enable the Ethiopian textile industry to compete globally by providing investment promotion, consultancy, training, research, laboratory, and marketing support and services. A number of garment companies from Turkey, India and other counties have now invested and/or registered in Ethiopia. These include well-known firms such as AYKA, H&M, Primark and Asda, TUSKON (Turkey), Phillips Van Heusen (US) and Jiang Lianfa Textile (China) are also present. Jiang Lianfa is planning to establish a textile factory in Addis Ababa at a cost of over US$500 million. Total investment in the textile sector in the last five years exceeds US$1.2 billion and has created over 50,000 jobs. UNIDO can support the Government and private sector in accelerating investment in this sector by improving the supply of quality raw materials and the skills of the workforce, and by building the capacity of institutions that provide support to the sector along the entire value chain.</td><td>- Increases in cotton production and quality
- Increases in domestic manufacturing of textiles and apparels
- Increases in exports of high-value products
- Capacity building at TIDI and linkage with higher education
- Enhanced fashion design capabilities</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">- Establishing raw material (contract farming) and product supply chains among manufacturers
- Establishment at TIDI of a fashion studio for apparel to increase product diversification and facilitate branding (PROJECT 1)
- Turning TIDI into a Centre of Excellence by enhancing its capability to turn out skilled workers and to provide services such as certification, marketing and investment promotion</td></tr>
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<table>
<tr><th colspan="3">PARTNERSHIP FOR ISID – LEATHER AND LEATHER PRODUCTS INDUSTRIES</th></tr>
<tr><td>Objective: To improve the skin and hides supply chain; further increase productivity to achieve export targets and support new investment in the leather products sector.</td><td colspan="2">Critical problems addressed:
- Inadequate supply of high quality hides and skins, including the lack of a grading system
- Pollution caused by tanning operations, as most of the tanneries are located in central urban areas
- Lack of professional skills in shop-floor and middle-level management (foremen or supervisors)
- Ineffective sourcing of components, such as soles and accessories, both locally and internationally</td></tr>
<tr><td>Partners: MoI, WB, ADB, bilateral cooperation (e.g., China, India, Italy)</td><td>Duration: 2015-2020</td><td>Indicative budget: US$2.1 billion</td></tr>
<tr><td colspan="2">Background</td><td>Outcomes</td></tr>
<tr><td colspan="2">Ethiopia’s leather sector in general enjoys significant international comparative advantages owing to its abundant raw materials, highly disciplined workforce, and low prices. Ethiopia has one of the world’s largest livestock populations with 52 million cattle (first in Africa and sixth in the world), 27 million sheep (third in Africa and tenth in the world), and 23 million goats (third in Africa and eighth in the world). The Government introduced a tax on exports of pickle and wet blue, which led to a significant structural change in the leather industry by making manufacturers go beyond primary processing and produce crust and finished leather. The Leather Industry Development Institute (LIDI) provides advisory, training, and research and product development with support from UNIDO. With the implementation of the TDA, export earnings have steadily increased from US$66 million in 2005 to US$124 million in 2013. The most important providers of assistance to the sector have been: UNIDO through Italian Cooperation, DFID, and USAID. A private Chinese company, Huajian, operates a factory employing 600 people, and has committed to invest US$2 billion and create 100,000 jobs in Shoe City over the next decade.</td><td>- Mojo Leather City established (PPP)
- Shoe City established (PS)
- Footwear, leather goods cluster shades in Addis Ababa and regions (PPP)
- Establishing footwear and leather goods design studio at LIDI
- Capacity building and R&D related to technology transfer</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">- Assistance in the establishment of a Leather City in the town of Mojdo (MLC), Oromia Region
- Promotion of manufacturing clusters for footwear and other leather products in Addis Ababa and other regions based on the UNIDO cluster approach
- Establishment of a fashion studio for leather products to increase product diversification and facilitate branding at LIDI
- Strengthening the capacity of LIDI to become an R&D Centre of Excellence</td></tr>
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<tr><td colspan="3">PARTNERSHIP FOR ISID – AGRO-FOOD INDUSTRIES</td></tr>
<tr><td>Objective: To establish four Integrated Agro-Industrial Parks (IAIPs) together with at least 20 Rural Transformation Centres (RTCs) per IAIP to facilitate substantial value chain integration and mitigate the main constraints investment in agro-industries (infrastructure, raw material supply, and trade logistics), while improving facilitation services for investors and support services to clustered firms and to farmers in the area.</td><td colspan="2">Critical problems addressed
- Poor linkage of small-holding farmers to industry
- Lack of infrastructure for agri-businesses in rural and urban areas outside of Addis Ababa and its surroundings
- Absence of coordination among value chain actors
- Weak institutional support</td></tr>
<tr><td>Partners: MoTI, MoARD, four regions , World Bank; IFC, AFDB</td><td>Duration: 2014-2020</td><td>Budget: US$ 900 million</td></tr>
<tr><td colspan="2">Background</td><td>Outcomes</td></tr>
<tr><td colspan="2">The improved investment climate alone has not been sufficient to attract investors to the agro-food processing sector in places where there is high economic potential (such as the Economic Growth Corridors), mainly due to lack of proper infrastructure. The Government of Ethiopia is using industrial zones development as a tool to accelerate investment in labour-intensive sectors. These include a US$127 investment in an industrial park in the outskirts of Addis Ababa and a new 250ha industrial zone funded with a loan from the World Bank (US$250 million). A Special Economic Zone in the eastern town of Dire Dawa will cover 3,000 to 20,000 hectares.
In collaboration with FAO, UNIDO is conducting a feasibility study for developing four IAIPs in the north and south of the country. IAIPs can lead to the transition of Ethiopian agricultural production from being fragmented and supply-driven, to becoming organized, safe, demand-led and high-value oriented. IAIPs could also be instrumental in creating an environment favourable to the transformation of small agro-food processing enterprises into medium-size companies; they can play this role by offering incentives such as modest plot lease fees, and financial assistance and training.</td><td>- 4 pilot IAIPs, each with 20 RTCs, established in selected areas of Economic Growth Corridors (US$200 million each)
- Support to value chains development in selected agro-industry development corridors</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">- Feasibility study, and business preparation for four Integrated Agro-Industrial Parks in different parts of the country
- Provide support in the integration of value chains and attract investment in selected value chains (coffee, fruit and vegetables, livestock, fisheries)
- Investment promotion in four IAIPs and support in the establishment and operation of IAIPs
- Value chain upgrading in selected agro-industry corridors (livestock, coffee, fruit, cereals, animal feed)</td></tr>
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<tr><th colspan="3">PARTNERSHIP FOR ISID – INSTITUTIONAL CAPACITY DEVELOPMENT FOR THE GOVERNMENT OF ETHIOPIA</th></tr>
<tr><td>Objective: To improve the Government’s capacity to monitor industrial development and to implement industrial development policies in Ethiopia.</td><td colspan="2">Critical problems addressed: Weak institutional capacity for the successful implementation of the Industrial Development Strategy Plan (2013-2025), which is critical for Ethiopia to reach middle-income country status by 2025.</td></tr>
<tr><td>Partners: MoI, MOFED, National Industrial Development Council (NIDC), Regional Government, World Bank, AfDB, EU, UNDP</td><td>Duration: 2014-2020</td><td>Budget US$13 million</td></tr>
<tr><td colspan="2">Background</td><td>Main outputs</td></tr>
<tr><td colspan="2">To support the growth of the private manufacturing sector and to achieve economic growth and industrialization targets, IDIS addresses the lack of institutional capacity and proposes an institutional framework for industrial transformation that includes the improvement of existing institutions, the establishment of new ones, as well as the strengthening of the National Industrial Development Council as the overseeing platform. The Government has recently established five institutes: 1) the Kaizen Institute (for assisting in quality and productivity improvement); 2) the Food, Beverage and Pharmaceutical Institute; 3) the Chemical and Construction Material Inputs Institute; 4) the Industrial Zone Development Agency; and 5) Meat and Dairy Institute. The Government had established three institutes at a much earlier stage: 1) the Textile Industry Development Institute; 2) the Leather Industry Development Institute; and 3) the Metal and Engineering Institute. Currently, another three institutions are under planning for establishment: 1) the Input Supply Institute (to promote capacities for input supply to industries; 2) Industrial Capacity Building Institute (to help with developing the labour market with competent workforce by capacitating institutions and developing an effective system for the continued supply of capable human resources in response to the growing demand in the manufacturing sector); and 3) the Industrial Research & Development Technology Transfer Institute (a multi-disciplinary institute with a mandate to carry out research, provide development and technical services and promote technology transfer). In addition to the Government’s efforts in establishing these support institutions, the World Bank, the EU and UNDP are providing capacity building support to the Government. Strengthening the institutional capacity is one of the most important crosscutting factors if Ethiopia is to achieve its industrial vision as well as to cope with the huge investment flows coming into the country.</td><td>- Building capacities of the Industrial Zone Development Agency to effectively guide and manage the development and operations of IZs (WB: US$6.1m)
- Support to the Transformation Triggering Facility (TTF) – in particular SMEs and market development in the areas of leather and leather products, textile and clothing, agro-food processing and pharmaceuticals (EU: US$6.8m)
- Establishment of database system for industrial info management at the Ministry of Industry</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">• Strengthening analytical capacity of the Ministry of Industry in the generation of industrial intelligence and policy (focus on textile, leather, and agro-food industries)
• Establishment of an industrial observatory and M&E system (focus on textile, leather, and agro-food industries)
• Leveraging impact for inclusive and sustainable industrial development through South-South and tripartite industrial cooperation</td></tr>
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<tr><th colspan="3">PARTNERSHIP FOR ISID – INDUSTRIAL ZONES (IZs) DEVELOPMENT for ISID INVESTMENTS</th></tr>
<tr><td>Objective: To increase quality investments with stronger ISID impact into IZs through MSME business linkages, PPP projects, and investment monitoring, including capacity building.</td><td colspan="2">Critical problems addressed: Weak institutional capacities to promote, finance, implement and manage PPP and infrastructure projects within the IZs according to international best practices, as well as to support MSME activities in these zones and to monitor domestic and foreign investment in IZs, especially in terms of their impact.</td></tr>
<tr><td>Partners : IDZC, MoI, MoFED,EIC, FeMSEDA, World Bank, IFC, AfDB</td><td>Duration: 2014-20</td><td>Budget: US$1.5 billion</td></tr>
<tr><td colspan="2">Background</td><td>Main outputs</td></tr>
<tr><td colspan="2">The government of Ethiopia views IZs as an instrument to develop priority sectors. MoI is developing industrial zones with standardized factory units to encourage new investment in labour-intensive manufacturing. Currently, the existing industrial zones host about 100 large foreign companies mainly manufacturing leather and textile products. The Industrial Zones can also be used as training facilities and one-stop shops for business regulations from which SMEs can also benefit. Exporting enterprises in IZs will be “authorized economic operators” (AEOs), which greatly facilitates their import and export operations.
The Government has also established a solid incentive framework to attract domestic and foreign investors to Industrial Zones; incentives include workforce provision, infrastructure costs coverage, power and water supply. However, these efforts have not resulted in the integration of local MSMEs in Industrial Zones. Consequently, the management and performance of Industrial Zones need to be aligned with the national development objectives and with regard to the expected development impact of IZs on job creation, environmental sustainability, and social inclusion.</td><td>- Four new industrial zones , Kombolcha, and Hawasa) and expansion of Bole Lemi
- Support to industrial zones (Senadafa, George Shoe, and Hujwan) to be developed by the private sector
- Capacity building at MoI in the establishment and management of IZs</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">• Establishment of an Industrial Upgrading and Modernization Program for MSMEs to strengthen linkages within IZ investors
• Capacity building at institutions in charge of managing and monitoring investments in IZs
• Investment promotion and trade facilitation support
• Assistance for monitoring investments in IZs</td></tr>
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<tr><td colspan="3">PARTNERSHIP FOR ISID - TRADE CAPACITY BUILDING</td></tr>
<tr><td>Objective: To ensure that Ethiopian products targeting export markets comply with international standards</td><td colspan="2">Critical problems addressed: Poor credibility of quality assurance provided by Ethiopian institutions due to lack of international recognition of local NQI; lack of coordination with value chain actors regarding relevant crosscutting quality issues; absence of customs-related laboratories for enhanced trade facilitation.</td></tr>
<tr><td>Partners: MoI, MoST, NMIE,ENAO, ESA, ECAE, World Bank</td><td>Duration: 2015-2020</td><td>Budget: US$51 million</td></tr>
<tr><td colspan="2">Background</td><td>Main outputs</td></tr>
<tr><td colspan="2">With Ethiopia's economy expanding rapidly and increasingly geared to international markets, the country aims to join the World Trade Organisation (WTO) in 2015. To do so, stricter product quality requirements must be met. In this context, the reform of the National Quality Infrastructure (NQI) was addressed between 2006 and 2008, the NQI-Strategy was adopted by the Council of Ministers in 2009, and a restructuring started in 2010, whereby the mandate of former Quality and Standards Authority of Ethiopia (QSAE) was split. In 2011, the following institutions were created: National Metrology Institute of Ethiopia (NMIE) responsible for industrial and scientific metrology, Ethiopian National Accreditation Office (ENAO), Ethiopian Standards Agency (ESA), and Ethiopian Conformity Assessment Enterprise (ECAE) under the leadership of the Ministry of Science and Technology (MoST). Since 2012, GIZ/PTB has been advising the four newly founded organizations and MoST on how to adapt to international standards expertise and training. As part of this initiative, GIZ/PTB focuses on the improvement of NQI services through advice and study tours. The World Bank (until 2015, with MoA) aims to boost trade and promote economic growth as well as address systemic poverty challenges across many sectors with its main challenges being to continue and accelerate the progress made in previous years towards achieving the Millennium Development Goals. The private sector is encouraged to develop a private-public dialogue on product quality and trade matters.</td><td>- GIZ/PTB: services rendered by NQI to commerce and industry improved
- WB/UNDP: Predictability of trade enhanced and economic growth increased
- Increased support to the FBPDI ENAO, ECAE</td></tr>
<tr><td colspan="3">UNIDO technical cooperation (partnership) services</td></tr>
<tr><td colspan="3">• Conduct value chain gap analysis, identify potential quality issues across the value chain links and build capacity for service supply through QARIs
• Development and implementation of standards/regulations and certification schemes for Industrial Zones
• New industries: review NQI; strengthen regulatory framework, including risk management; upgrade legal metrology services; obtain international recognition of QARIs; create personnel and product certification schemes; improve Instrumentation Support Service Centre for laboratory equipment; establish Quality/Productivity Awareness Campaign & Quality Award for private sector; strengthen WTO/TBT-SPS Enquiry Points
• Enable trade facilitation (customs-related laboratories, harmonization of CAPs with neighbouring countries)</td></tr>
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PARTNERSHIP FOR ISID: ENVIRONMENT AND ENERGY		
Objective: The Programme will ensure the inclusion of environmental considerations in the priority sectors of the industrialization process, leading to improved environmental and economic performance.	**Critical problems addressed:** Low environmental performance and efficiency of priority sectors in relation to energy use and generation, water consumption and treatment, emissions and waste management. Low capacity of MEF and poor institutional linkages with other ministries, especially with MoI.	
Partners: MoI, MEF, PMO, MoA, MoFED, UNDP, UNFCCC	**Duration:** 2014-2019	**Budget: US$40 million**

Background	Main outputs
Recognizing the close links between environmental and development concerns, Ethiopia is working to integrate environmental considerations into its broader development processes. The Ethiopian Climate-Resilient Green Economy (CRGE) initiative, which was launched in late 2011, laid the foundation for integrated planning for green development. The Climate-Resilient Green Economy Facility (CRGEF) was launched in September 2012 to support the government's vision of attaining sustainable development. The facility, an initiative of the Government, is a financing mechanism aimed at mobilizing, accessing and combining both local and international public resources to support Ethiopia's green economic development. The facility currently funds 40 projects that solely focus on climate change issues and do not cover waste management and recycling, or greening of value chains. The GTP also explicitly recognizes that environmental considerations are a vital and important pillar of sustainable development, and states that "building a 'Green Economy' and on-going implementation of environmental laws are among the key strategic directions to be pursued during the plan period." Energy is the main driver of industrial productivity. In most industrial zones that are in isolated areas, energy access is constrained by limited infrastructure services and unreliable power supply that regularly disrupts operations resulting losses of production times. In addition, the use of power and other forms of energy is not done efficiently thereby leading to higher input costs. Yet, such industrial zones can harness locally available renewable energy sources, such as waste, or small hydropower stations) for their operations. In addition, a systematic and integrated approach to energy use efficiency will result in substantial energy savings thereby increasing the productivity and competitiveness of industries.	- Improved crop and livestock production practices for higher food security and farmer income while reducing emissions - Expanded electricity generation from renewable sources of energy for productive uses

UNIDO technical cooperation (partnership) services
• Environmentally sound management of slaughterhouse wastes and sustainable and productive use of animal by-products • Greening of leather and textile value chains • Establishment of small hydropower stations and biogas system in Rural Transformation Centres located in selected agro-industry corridors • Promote energy use efficiency in the new industrial centres

10. REFERENCES

[1] MoFED, National Accounts.

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