I. Introduction and Context

A. Country Context

Ethiopia is a landlocked country that has experienced impressive growth and gains in development in the past decade. Gross domestic product growth averaged more than 11 percent per year, higher than average for the region and exceeding that of other low-income countries. The government’s accelerated, broad-based economic development plan paved the way for significant reductions in poverty – from 44 percent to 30 percent from 2000 to 2011 – which has been accompanied by moderate improvements in access to education and healthcare. Although Ethiopia’s 2015 Human Development Index (HDI) ranking (174 out of 188 countries) places it in the bottom quartile of countries in relative terms, Ethiopia was one of the top 10 countries in terms of recent gains in HDI. Most of Ethiopia’s growth is attributed to agricultural growth and major public investments, which have included large-scale safety net programs and expansion of basic services. Although a significant percentage of Ethiopian’s are still living below the poverty line, Ethiopia has comparatively low levels of inequality according to the Gini coefficient.

Despite accelerated progress toward development and poverty reduction, Ethiopia remains a low-income country challenged by the need to create opportunities for its growing population, including for an estimated 30 million Ethiopians living in poverty. Gross domestic product per capita was estimated at US$619 in 2015 (lower than the regional average),

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with most of the population (more than 70 percent) engaged in the agricultural sector. Demographic transition has presented opportunities and challenges for the country, with an increasingly urbanized, young working-age population. In 2013, 16 percent of young men and 26 percent of young women were unemployed in urban areas. Although overall unemployment is low (4.5 percent), underemployment in Ethiopia is high; urban employment is highest in Addis Ababa (24 percent) and Dire Dawa (18 percent). Vulnerability to rainfall and weather patterns has resulted in several severe droughts, including one of the worst droughts in 30 years (2015–16), which has created food insecurity for millions of Ethiopians.

Ethiopia hosts more than 800,000 refugees (the second-largest refugee-hosting country in Africa after Uganda). Protracted conflict and fragility in neighboring countries have contributed to a longstanding practice of hosting refugees. Ethiopia’s open-door policy, enacted in 1991, permits refugees and asylum seekers the right to reside in Ethiopia in officially designed camps that the Administration for Refugee and Returnee Affairs (ARRA) manages (see annex 4 for locations of major refugee camps). Most refugees are of Somali, Eritrean, Sudanese, and South Sudanese origin, and most live in camps with limited schools, health facilities, food, clean water, sanitation, and household energy. Refugees do not have the right to work and mostly survive on humanitarian aid, which in some situations has created aid dependency. In September 2016, at the UN Summit on Refugees in New York, the Prime Minister of the government of Ethiopia rolled out its commitment to improve the living conditions of refugees by focusing on measures to extend their rights and relax the camp-based approach to hosting large numbers of refugees.

As part of an overall roadmap (nine pledges) focusing on improving the rights of and services for refugees and following the 2016 UN summit, the government is working to expand its industrialization agenda to create jobs for Ethiopians and refugees – referred to as the Jobs Compact. The compact is designed to operationalize and implement the commitment that the government has made to create 100,000 jobs (or economic opportunities), which would benefit Ethiopians and refugees. The Jobs Compact also includes pledges to provide work permits and certain basic and essential services. The pledges under the government’s roadmap include a broad set of commitments, some of which are not covered under the Jobs Compact initiative (e.g., education pledge, out-of-camp pledge, birth certificate documentation, local integration). ARRA is implementing the roadmap with the support of the international community.

The Ethiopian Investment Commission (EIC) is managing the Job Compact pledges in collaboration with government agencies such as the Ministry of Finance and Economic Cooperation (MoFEC), and donor partners comprising the World Bank Group (WBG), UK Department for International Development (DFID), European Union, and European Investment Bank (EIB). The donor partners have indicated their intent to provide a financing package of more than US$500 million (including the proposed Program for Results (PforR) operation).

B. Multisectoral and Institutional Context of the Program

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2 World Bank, Labor Market Background for Ethiopia’s Country Partnership Framework (2016), 4
3 Ibid, 4
The Jobs Compact is being implemented in the context of the government’s plans for rapid industrialization and structural transformation, with the ambitious aim of transitioning Ethiopia’s economy to lower-middle-income status by 2025. Public investments have fueled recent economic growth, focusing on infrastructure, development of industrial parks, and expansion of basic services. The government’s Growth and Transformation Plan I (2010-15) and II (2016-20) guide its development agenda, mostly focusing on large-scale safety net programs, expansion of basic services, and public investment in infrastructure. The Growth and Transformation Plan II emphasizes rapid structural transformation, industrialization, urbanization, and job creation.

The government’s industrial policy focuses on the establishment of industrial parks throughout the country. The government currently has three operational industrial parks (Bole Lemi I, Eastern, Hawassa), which are fully leased out for investors. In addition, the Mekelle and Kombolcha industrial parks were inaugurated in early July 2017, and the Dire Dawa, Bole Lemi II, Kilinto, and Adama industrial parks are under construction. Key sectors prioritized for development include textiles, apparel, leather and leather products, agro-processing, pharmaceuticals, and chemicals. Underpinning the government’s industrialization vision are a number of government entities, including the Prime Minister’s office, EIB, EIC, Industrial Parks Development Corporation, Ministry of Industry, and MoFEC.

In line with the country’s industrialization agenda, a major priority is generation of productive job opportunities. Ethiopia’s working age population is growing at a rate of 2 million per year. The agricultural sector, employing more than 70 percent of the population, is not expected to be able to sustain this level of workforce growth over time, necessitating a fundamental movement of labor to higher productivity sectors, notably to light manufacturing. At the same time, recent attention on the global refugee crisis has underscored the importance of creating opportunities for refugees in Ethiopia. Although Ethiopia’s current refugee policy provides an open door to refugees and asylum seekers, the right to work and freedom of movement for refugees as adopted in the 1951 convention relating to the status of refugees are taken as recommendations rather than legally binding obligations. As such, refugees are not granted work permits, and the majority (with the exception of approximately 20,000 refugees who reside in Addis under an out-of-camp scheme) live in camps with no prospects for formal work. The government’s roadmap (and Jobs Compact) would pave the way for critical improvements that would extend the formal right to work to refugees, including in the manufacturing sector.

Ethiopia has several advantages that it can leverage to harness the investment needed for job growth, including large infrastructure investments, low labor costs, and established free trade agreements with the European Union and United States. Ethiopia is competitive in terms of low-cost manufacturing (with comparatively low unit labor costs especially in textiles and leather) and is set on implementing strategies that would enable it to become one of the most-competitive locations for light manufacturing. Moreover, with the third highest public investment rate in the world, the government has invested heavily including in areas such as transport, trade logistics, power, and industrial park development. Trade agreements with the European Union through the Everything but Arms Act and the United States through the African Growth and Opportunities Act provide preferential trade access for Ethiopian goods.
Ethiopia is utilizing these advantages to attract investment and generate jobs. According to the UN Conference on Trade and Development 2016 report, Ethiopia has attracted the most foreign direct investment in Africa. The country is being perceived as an attractive investment destination, and major investors seized the opportunity to set up production facilities in the industrial parks. For instance, the Bole Lemi I Industrial Park is fully leased to 11 investors and is operational, focusing on footwear and garment exports; 13,000 jobs have been created. The recently operationalized Hawassa Industrial Park has been committed to 25 investors (foreign and domestic) and is expected to generate approximately 60,000 jobs and US$1 billion in exports when it becomes fully operational. There are also three private sector investors that have been licensed to develop and operate industrial parks.

Despite these successes, Ethiopia continues to have a challenging business-enabling environment that offsets the attractiveness of low labor costs and preferential trade. Greater private sector competitiveness is required to unlock the investment and jobs growth needed to fulfill the goals of the Jobs Compact. Ethiopia ranks 109 out of 138 economies in the Global Competitiveness Index 2016/17 and 159 out of 190 countries in the Doing Business rankings. Moreover, Ethiopia’s landlocked position and exchange rate present a challenge for trade logistics and export-oriented growth. Private sector development constraints that need to be addressed for investment and job growth include access to finance, including foreign exchange; trade logistics inefficiencies; low labor productivity; limited institutional capabilities; poor small and medium enterprise (SME) linkages; and lack of quality inputs in the domestic market. Addressing the challenges linked to Ethiopia’s enabling environment will require a complex set of sequenced policy interventions, investment, and technical assistance to promote a broad range of outcomes, including improvements in trade logistics, a more-skilled and productive workforce, enhanced linkages to markets, and a better business environment.

C. Relationship to Country Partnership Framework

The proposed operation directly supports the focus areas of the Country Partnership Framework (CPF) FY18-21, which prioritizes structural and economic transformation, resilience and inclusiveness, and institutional capacity. Table 1 summarizes the relationship between the Jobs Compact and the CPF focus areas and objectives.

<table>
<thead>
<tr>
<th>CPF FY18-21 Focus Area</th>
<th>Relevant Objectives</th>
<th>Jobs Compact Project</th>
</tr>
</thead>
</table>

Table 1: Linkage Between Jobs Compact Project and Country Partnership Framework (CPF) Focus Areas
Focus Area 1: Promote structural and economic transformation through increased productivity

<table>
<thead>
<tr>
<th>Increased Productivity</th>
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<tbody>
<tr>
<td>Objective 1.1 Enhanced business and investment climate, notably access to finance for micro, small, and medium enterprises</td>
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<tr>
<td>Objective 1.3 Improved agricultural productivity and commercialization</td>
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</tbody>
</table>

The Jobs Compact will support investment climate reforms needed to improve the ease of doing business, investment retention, and expansion, with a view to reinforce and prioritize specific reforms that have been identified as critical to improving export and business performance.

Agro-processing is one of the key sectors targeted for export-oriented growth within the government’s industrialization agenda and will likely benefit directly and indirectly from the measures proposed under the PforR. This may be in the form of worker training, regulatory reform, and opportunities linked to the agricultural sector.

Focus Area 2: Building resilience and inclusiveness

| Objective 2.6 Increased access to services and job opportunities for refugees and host communities |

The program will include legal and policy measures needed to facilitate access to employment for refugees (including providing work permits), as well as business formalization and basic services (e.g., access to bank accounts).

Focus Area 3: Supporting institutional accountability and confronting corruption

| Objective 3.1 Increased capacity and improved governance in service delivery |

The PforR will include Program actions to strengthen the institutional capacity, especially regarding fiduciary systems and governance. It will be complemented by additional technical assistance geared toward strengthening the institutions and systems that support Program outcomes.

D. Rationale for Bank Engagement and Choice of Financing Instrument

The Bank’s approach is multifaceted and focused on linking the socioeconomic dimensions of forced displacement to a medium-term development strategy. The following factors justify the Bank’s intervention.

i) the need to provide economic opportunities for Ethiopians and refugees that entails support to the private sector (business environment and policy reforms) and to the government’s industrialization agenda. The Bank has been supporting similar projects worldwide, including in Ethiopia, for which it possesses a comparative advantage.

ii) experience designing and implementing development projects that can translate into medium-term development solutions that focus on government ownership and sustainability.

iii) the Bank’s ability to convene donors around a common goal to support the
government in its overall agenda on employment, including the Jobs Compact. The Bank has strong collaborative support from the Jobs Compact development partners, the International Finance Corporation, key UN agencies such as the UN High Commissioner for Refugees (UNHCR), the International Labour Organization, and nongovernmental organizations such as the International Rescue Committee.

iv) financing available through the International Development Agency 18 sub-window for refugees, which complements rather than duplicates resources. Although several humanitarian organizations have been engaged to provide humanitarian relief, support under the Jobs Compact will create a sustainable development solution beyond humanitarian relief. This will also complement ongoing humanitarian operations because many partners’ resources are expected to shrink as attention shifts toward emergencies in other countries (e.g., South Sudan).

The PforR instrument was chosen rather than development project financing or investment project financing because:

i) addressing the government’s Jobs Compact Program requires a complex mix of policy actions, investment activity, and technical assistance to achieve the desired results. Implementation of the compact requires a strong focus on ensuring that the enabling environment (including environmental and social protections) for the industrialization strategy is in place so that investors can generate the necessary jobs and specific efforts to ensure inclusive job creation.

ii) it will enhance the Bank’s ability to partner with other development organizations supporting the Jobs Compact by pooling resources and focusing more directly on achievements of results for the needed reforms.

iii) it helps provide assurances over a number of social issues, including for refugees.

iv) achievement of results by the government and the Bank is underlined through disbursements linked to results and strong monitoring and evaluation mechanisms.

v) it allows for improvement and strengthening of systems and institutions that will lead to implementation of a large and critical part of the government’s program. Such a broad level of support would not be feasible through investment project financing. Also, although a development policy operation can support and reward actions related to policy and regulatory reforms, the development policy operation instrument is not currently applied in Ethiopia. Furthermore, the PforR could support a program of critical investments (that can cover infrastructure and technical assistance) over time in addition to regulatory and institutional improvements. It also allows for a flexible and scalable disbursement schedule provided results are achieved and verified.

vi) of the positive experience of the Economic Opportunities for Jordanians and Syrian Refugees Project (on which the Jobs Compact is modeled) in using the PforR
instrument to manage the complexity of the refugee and jobs agenda, while maintaining maximum adaptability and solutions orientation.

II. Program Development Objective(s)

A. Program Development Objective(s)

The program development objective (PDO) of this PforR is “to provide economic opportunities for Ethiopians and refugees in a sustainable way."

a. Economic opportunities include entrepreneurship, self-employment, linkages with SMEs, and formal employment in or outside of industrial parks.

b. Ethiopians and refugees implies that the Program beneficiaries are Ethiopians and refugees living in Ethiopia regardless of their status.

c. In a sustainable way refers to adequate management and mitigation of emerging environmental and social risks associated with the government’s industrialization strategy and refugee policy.

The PDO is designed to help fulfill the Jobs Compact, which combines the government’s industrialization strategy and the refugee policy. Essentially, it aims to contribute to the government’s overarching goal of becoming a middle-income country by 2025 while achieving part of its pledge made during the September 2016 leaders’ summit hosted at the UN General Assembly on Refugees.

B. Key Program Results

The proposed PforR will provide economic opportunities for Ethiopians and refugees in a sustainable way through:

i) an improved investment climate, leading to more investment and job creation;

ii) enhanced sustainability of existing industrial parks;

iii) employability and improved status of refugees in Ethiopia (introducing labor market reforms to enable refugees to contribute formally to Ethiopia’s economic activity and improved basic and essential services).

III. Program Description

A. PforR Program Boundary

The overarching objective of the government’s program is to create economic opportunities for Ethiopians and refugees. To achieve this, the compact will support the government’s industrialization strategy with the target of creating jobs. In parallel, a set of reforms and interventions will allow refugees to benefit from job opportunities. The focus on industrialization is intended to create jobs directly and create the conditions for greater labor market access without putting undue strain on host communities. The government’s Jobs Compact program covers the following work streams: improving the broader investment climate, strengthening investment promotion capabilities, increasing labor productivity, further enhancing Ethiopia’s reputation on environmental and social issues (improving sustainability of industrial parks), industrialization strategy focusing on development of infrastructure, and refugee-related employment and protection.
guarantees. The last component will entail a broad set of activities including providing the legal basis for refugees to take up employment opportunities, provision of housing, skill development, developing employer and employment matching capability, and structures and oversight mechanisms to ensure that refugees’ rights and well-being are protected. The ambitious targets that the government’s program has set and the pioneering nature of some of the activities will necessitate adaptive and evolving implementation approaches that allow for course corrections as the government builds an evidence base for how to deliver this type of program.

The Bank’s PforR will cover a subset of the government’s program. Improving the broader investment climate, increasing labor productivity, further enhancing Ethiopia’s reputation on environmental and social issues (improving sustainability of the industrial parks), and refugee-related employment and protection guarantees will be supported. Most activities linked to investment promotion (except for investment mobilization), as well as the government’s industrialization strategy (focusing on development of infrastructure), have been excluded from the PforR.

The core results areas and boundaries of the PforR were developed in close coordination with the government and Jobs Compact donors. The overall rationale and criteria for selection of the proposed interventions is based on the following:

i. Relevance to the compact objective of attracting investments and creating economic opportunities
ii. Leveraging strengths and ongoing projects financed by the WBG
iii. Incentive to drive impact focusing on results
iv. Scalability
v. Timeliness
vi. Ease of verification
vii. Financing eligibility

The proposed results areas are described in more detail below along with a preliminary identification of potential disbursement linked indicators (DLIs).

=> Improving the Broader Investment Climate

The Doing Business environment in Ethiopia is a major barrier to attracting investors. The existing regulatory service delivery is complicated and depends on discretion, with limited information access. The Doing Business assessment shows a significant lag in the time, cost, and procedures required to start a business (rank 179), trade across borders (rank 167), and access credit (rank 170), among others, yet to reach the government’s goal of boosting industrialization, creating jobs, and stimulating economic growth, it is critical to boost investments and the trade competitiveness of the economy.

Key reforms are needed to improve and complement the existing efforts, particularly significant investments in infrastructure that have already commenced (e.g., final commissioning of the railway line from Addis Ababa to Djibouti, an intersection of major international shipping lines connecting Asia, Africa, and Europe, which is expected in September 2017). Although industrial parks can reduce the regulatory burden for investors, investors still rely on suppliers that face challenges, which affects operating costs. Along these lines, the government has identified some key reforms to be implemented, including strengthening trade and logistics efficiency, drafting and adopting an adequate legal framework for industrial parks, establishing
one-stop-shops, and addressing investor grievances.

The PforR interventions planned under this thematic area would complement the ongoing WBG investment climate program. It would focus on investment climate reforms needed to increase the ease of doing business, as well as investment retention and expansion, while reinforcing and prioritizing specific reforms that have been identified as critical to improve export and business performance. It would further support some promotional activities, including introduction of systematized processes for relationship management and investor aftercare, in addition to SME linkages and access to trade finance.

Several DLIs have been proposed to target bottlenecks to attracting and facilitating investments. The first DLI is proposed to help improve the business environment for investors. It will be measured using existing public–private dialogue mechanisms as a platform for industrial park investors and implementing reforms through public–private dialogue. The second DLI would target the number of investors mobilized as a result of improved processes for relationship management and investor aftercare, reforms that would pave the way for an eventual introduction of a full relationship management and grievance handling mechanism (Systemic Investment Response Mechanism). Further potential DLIs may include greater access to trade finance and logistics sector reforms with openings for private sector service provision in logistics hubs.

=> Improving Labor Productivity

A core issue that has been identified through discussions with investors—buyers and manufacturers—is the need for a more-productive work force. Absenteeism, high turnover, and low productivity have been listed as critical factors. Poor labor productivity affects the competitiveness and growth of firms particularly in the manufacturing sector. The benefits Ethiopia enjoys in terms of low labor rates is offset by (and may arguably contribute to) these labor productivity challenges. Converting the abundant labor supply opportunity into jobs would, among other inputs, require developing effective labor training, sourcing, and employment matching capability. Although the PforR is designed to support interventions that would address these labor market challenges, it also aims to address specific causes such as limited transport connectivity and soft and technical skills that have been identified as major contributing factors to high turnover and low labor productivity.

Several potential DLIs are proposed that would address some of the challenges linked to labor productivity. A DLI linked to an effective training program, assessing the number of people trained (hard and soft skills), of which a percentage would be refugees, and a DLI that would target employment-matching systems and measure the number of skills matched to potential employers will be considered. A further DLI linked to transport facilitation would help address spatial mismatch challenges for employees.

=> Enhancing Ethiopia’s Reputation on Environmental and Social Issues (Improving Sustainability of Industrial Parks)

The existing industrial parks will need to address potential and emerging social and environmental challenges to sustain the industrialization strategy and refugee policy for the Jobs Compact. Some of the social and environmental challenges identified include:
i) the general effect on urbanization in terms of provision of basic social infrastructure such as housing and transport for an influx of new workers and the delivery of social services to meet acceptable working and living conditions;

ii) women’s and children’s welfare provisions, because many of the beneficiaries are expected to be women (and may be accompanied by children), who will need to relocate from their hometowns or existing camps (for refugees) to take on employment;

iii) risk of potential tensions and conflict among local communities and subgroups of refugees because the refugee groups are diverse, with differing social and political backgrounds; and

iv) integrated planning and management of resources and waste.

The proposed DLI for these results will aim to ensure that the industrial parks are fully compliant with environmental and social regulations, which will require developing audit systems and measuring the rate of compliance. DLIs may also include linking disbursements to the number of employees housed according to international standards, implementing gender-inclusive stakeholder dialogue mechanisms, providing solutions for resource efficiency and waste management, and other key safeguard dimensions identified through the environmental and social systems assessment (ESSA).

=> Refugee-Related Employment and Protection Guarantees

In support of the Jobs Compact and to deliver on the commitment to provide opportunities to refugees, the Program will support the legal and policy measures needed to facilitate access to employment for refugees (including providing work permits), as well as business formalization and basic services (e.g., access to bank accounts). Focus group consultations with refugees have validated several design considerations, and a survey to assess the refugee profile is underway. Although it is envisaged that a proportion of the work permits provided to refugees could be used for jobs in industrial parks, opportunities through business formalization and entrepreneurship will also be considered.

With more than 800,000 refugees from more than 20 countries, facilitating employment opportunities for refugees will require addressing several significant issues.

i) Ensuring that refugees have sufficient rights to work. A draft law already provides for many of these rights and, once enacted and implemented, will provide these resources.

ii) Easing the processes for obtaining a work permit.

iii) Supporting the processes that would enable refugees to work, including training and job matching opportunities. Although creating jobs for refugees is important, it is also important to build skills so that they are employable. Initial indications are that most refugees who may be interested in industrial jobs will need training in basic language, numeracy, and literacy, as well as employee life skill training.

iv) Ensuring acceptable living standards for refugees, as well as Ethiopian workers, adjacent to industrial parks, considering that a significant number of the refugees are women and children and very few refugees live near the industrial parks.
The proposed DLI would aim to target the provision of regulatory protections, ensuring that the refugee law is passed, which would also provide the right to work, ease of obtaining a work permit, and grievance redressal measures. A DLI linked to financial inclusion (percentage of refugees with access to bank accounts, mobile services) would enable refugees to be more independent and participate more fully in Ethiopia’s economy.

IV. Initial Environmental and Social Screening

The Program will support activities that do not have significant environmental and social effects. The activities to be supported will not have significant environmental and social effects that are sensitive, diverse, or unprecedented on humans and environment, and any activity that may have adverse effects (activities that require significant land acquisition) will be excluded in this program.

On the social side, the proposed Program is not expected to support any infrastructure development activities that result in large-scale land acquisition that could result in any massive physical or economic displacement. Potential social risks of the Program include the vulnerability of refugee populations, ensuring acceptable working and living conditions onsite for workers and potential tensions and conflict between subgroups of refugees and between local communities and refugees and the need for viable solutions to enable refugee women to work outside the camps.

The Bank will conduct an ESSA to mitigate any associated Program risks and potential effects of the Program. This will assess the government’s institutional capacity, particularly under the implementing agency (EIC), as well as the respective regional and city-level counterparts, to plan, monitor, and report on environmental and social management measures and address social and environmental challenges associated with the Program, as required in OP/BP9.00 on PfoR. The findings of the assessment will be used to establish the extent to which existing Program procedures for social and environment meet the six core principles of OP9.00 and, where they do not, recommend an action plan to address shortfalls. The mitigation measures will also include minimum conditions to access funds and verification protocols that will be captured in the DLIs and financing agreement.

The ESSA will also include the recommended measures, among others, to develop systematic procedures for acquisition of land (if any). During PforR preparation, consultations on broader stakeholder support, citizen engagement, and gender-related considerations will be held.

The findings of the assessment will be discussed with key stakeholders before the report is finalized and the draft report will be made publicly available by appraisal.

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