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IDA/R2018-0148/3

June 20, 2018

Closing Date: Monday, June 25, 2018 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Ethiopia

Ethiopia Competitiveness and Job Creation Project

Additional Financing

Change in Procedure from Discussion to Absence-of-Objection

At the request of Mr. de Villeroche, the President's Memorandum and Recommendation on a proposed additional credit to Ethiopia for an Ethiopia Competitiveness and Job Creation Project (IDA/R2018-0148), that was distributed for consideration on an absence-of-objection procedure with a closing date of June 13, 2018, and subsequently scheduled for discussion on June 26, 2018, will now be considered on an absence-of-objection with a closing date of **Monday, June 25, 2018**.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

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IDA/R2018-0148/2

June 14, 2018

For meeting of
Board: Tuesday, June 26, 2018

FROM: Vice President and Corporate Secretary

Ethiopia - Ethiopia Competitiveness and Job Creation Project

Additional Financing

Change in Procedure from Absence-of-Objection to Regular Discussion and Scheduling of Item

At the request of Mr. de Villeroche, the President's Memorandum and Recommendation on a proposed additional credit to Ethiopia for an Ethiopia Competitiveness and Job Creation Project (IDA/R2018-0148), that was distributed for consideration on an absence-of-objection procedure with a closing date of June 13, 2018, is being scheduled for discussion on **Tuesday, June 26, 2018**.

Distribution:
- Executive Directors and Alternates
- President
- Bank Group Senior Management
- Vice Presidents, Bank, IFC and MIGA
- Directors and Department Heads, Bank, IFC and MIGA

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IDA/R2018-0148/1

May 24, 2018

Closing Date: Wednesday, June 13, 2018 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Ethiopia - Ethiopia Competitiveness and Job Creation Project - Additional Financing

Project Paper

Attached is the Project Paper regarding a proposed additional credit to Ethiopia for an Ethiopia Competitiveness and Job Creation Project - Additional Financing (IDA/R2018-0148), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
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Directors and Department Heads, Bank, IFC and MIGA

Document of

The World Bank

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Report No: PAD2808

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 121.7 MILLION
(US$175 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

ETHIOPIA COMPETITIVENESS AND JOB CREATION PROJECT-ADDITIONAL FINANCING

May 21, 2018

Finance, Competitiveness and Innovation Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2018)

Currency Unit =	Ethiopian Birr (ETB)
ETB 27.42 =	US$1
US$1.45 =	SDR 1

FISCAL YEAR

July 8 – July 7

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CAPEX	Capital Expenditure
CE	Citizen Engagement
CESMP	Contractors Environmental and Social Management Plan
CJC	Competitiveness and Job Creation
CPF	Country Partnership Framework
CO2	Carbon Dioxide
EIB	Ethiopian Investment Board
EIC	Ethiopian Investment Commission
ERP	Enterprise Resource Planning
ERR	Economic Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
FDI	Foreign Direct Investment
FM	Financial Management
GAP	Gender Action Plan
GBV	Gender-based Violence
GoE	Government of Ethiopia
GRM	Grievance Redress Mechanism
HNP GP	Health, Nutrition and Population Global Practice
IFC	International Finance Corporation
IP	Industrial Park
IPDC	Industrial Parks Development Corporation
IRR	Internal Rate of Return
ISR	Implementation Status and Results Report
IZ	Industrial Zone
LRP	Livelihood Restoration Plan
M&E	Monitoring and Evaluation
MoFEC	Ministry of Finance and Economic Cooperation
MFD	Maximizing Finance for Development
MoI	Ministry of Industry
NPF	New Procurement Framework

NPV	Net Present Value
PAP	Project-affected People
PDO	Project Development Objective
PIU	Project Implementation Unit
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
PPP	Public-Private Partnership
RAP	Resettlement Action Plan
RF	Results Framework
SMEs	Small and Medium Enterprises
VAT	Value Added Tax
WHO	World Health Organization
WWTP	Wastewater Treatment Plant

Regional Vice President:	Makhtar Diop
Country Director:	Carolyn Turk
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Niraj Verma
Task Team Leader(s):	Manju S. Haththotuwa, Susan Kayonde

BASIC INFORMATION – PARENT (Ethiopia Competitiveness and Job Creation Project - P143302)

Country	Product Line	Team Leader(s)		
Ethiopia	IBRD/IDA	Bharatha Manju S. Haththotuwa		
Project ID	**Financing Instrument**	**Resp CC**	**Req CC**	**Practice Area (Lead)**
P143302	Investment Project Financing	GFCAE (9552)	AFCE3 (247)	Finance, Competitiveness and Innovation

Implementing Agency: Industrial Parks Development Corporation

Is this a regionally tagged project?	
No	

Bank/IFC Collaboration

No

Approval Date	Closing Date		Original Environmental Assessment Category	Current EA Category
13-May-2014	30-Jun-2020		Full Assessment (A)	Full Assessment (A)

[ ] Situations of Urgent Need or Capacity Constraints	[ ] Financial Intermediaries (FI)
[ ] Series of Projects (SOP)	[ ] Project-Based Guarantees

Development Objective(s)

The Project Development Objective (PDO) is to contribute to job creation by attracting investments and improving competitiveness ofenterprises in the targeted industrial zones and their linked domestic enterprises.

Ratings (from Parent ISR)

	Implementation	Latest ISR

	22-Dec-2015	17-Jun-2016	06-Jan-2017	27-Apr-2017	16-Nov-2017	22-Apr-2018
Progress towards achievement of PDO	MS	MS	MS	MS	MS	MS
Overall Implementation Progress (IP)	MU	MU	MU	MS	MS	MS
Overall Safeguards Rating	MU	MU	MS	MS	MS	MS
Overall Risk	S	S	S	S	S	S

BASIC INFORMATION – ADDITIONAL FINANCING (Ethiopia Competitiveness and Job Creation Project-Additional Financing - P164429)

Project ID	Project Name	Additional Financing Type	Urgent Need or Capacity Constraints
P164429	Ethiopia Competitiveness and Job Creation Project-Additional Financing	Cost Overrun, Restructuring, Scale Up	No
Financing instrument	Product line	Approval Date	
Investment Project Financing	IBRD/IDA	13-Jun-2018	
Projected Date of Full Disbursement	Bank/IFC Collaboration		
30-Jun-2021	No		

Is this a regionally tagged project? No	
[ ] Situations of Urgent Need or Capacity Constraints	[ ] Financial Intermediaries (FI)
[ ] Series of Projects (SOP)	[ ] Project-Based Guarantees
[ ] Disbursement-linked Indicators (DLIs)	[ ] Contingent Emergency Response Component (CERC)
[ ] Alternative Procurement Arrangements (APA)	

Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD				%
IDA	250.00	197.15	30.70	87 %
Grants				%

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Ethiopia Competitiveness and Job Creation Project-Additional Financing - P164429)

FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	175.00
Total Financing	175.00
of which IBRD/IDA	175.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	175.00
IDA Credit	175.00

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any other Policy waiver(s)?

[ ] Yes [✓] No

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Bharatha Manju S. Haththotuwa	Team Leader (ADM Responsible)	Private Sector Development	GFCAE
Susan Kayonde	Team Leader	Private sector development	GFCAE
Shimelis Woldehawariat Badisso	Procurement Specialist (ADM Responsible)	Procurement	GGOPA

Binyam Bedelu Mekbib	Procurement Specialist	Procurement	GGOPA
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Abiy Demissie Belay	Financial Management Specialist	Financial Managment M	GGOAE
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Asta Bareisaite	Team Member	Private Sector Development	GFCAE
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Ejigayehu Teka Habte	Team Member	Team Assistant	AFCE3
Maiada Mahmoud Abdel Fattah Kassem	Team Member	Finance Officer	WFACS
Margaret Png	Counsel	Legal advisor	LEGAM
Niklas Buehren	Team Member	Gender Specialist	GTGDR
Senidu Fanuel	Team Member	Sr. Private Sector Specialist	GFCAE
Simon Sottsas	Social Safeguards Specialist	Social Safeguards	GSU07
Steven Farji Weiss	Team Member	Economic Analysis	GFCAE
Tanangachi Ngwira	Team Member	Quality assurance	GFCAC
Yacob Wondimkun Endaylalu	Environmental Safeguards Specialist	Environment	GEN01
Yalemzewud Simachew Tiruneh	Social Safeguards Specialist	Social Safeguards	GSU07

Extended Team

Name	Title	Organization	Location

ETHIOPIA

ETHIOPIA COMPETITIVENESS AND JOB CREATION PROJECT-ADDITIONAL FINANCING

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I. INTRODUCTION

1. **This Project Paper seeks the approval of the Executive Directors to provide for an Additional Financing (AF) of US$175 million for the Competitiveness and Job Creation (CJC) Project (P143302).** The AF of US$175 million was requested to primarily address a financing gap resulting from a substantial increase in scope and scale of activities for the construction of Kilinto Industrial Park (IP), quality enhancements in key features of the IPs, additional costs due to reduction of construction period, reduction in project funds due to the devaluation of Special Drawing Rights (SDR) against the US dollar and inflation of prices. The AF will also fund additional technical assistance for safeguards and park operational sustainability, including transaction advisory services to facilitate more private sector participation in IPs through public private partnerships (PPPs) and other financing models.

2. **The request for AF had been anticipated.** In its letter dated December 20, 2016, the Government of Ethiopia (GoE) notified the World Bank that the combined value of the lowest bids for the Bole Lemi-II and Kilinto IPs exceeded the total available financing under the project and indicated that it would request AF from IDA18 resources to cover the financing gap. With this commitment from the GoE to request an AF to cover the financing gap for the civil works, on January 3, 2017, the World Bank provided a no-objection for the Bid Evaluation Report and Contract Award for the civil works contracts of the two IPs. The Bid Evaluation Reports were reviewed and cleared by the Operational Procurement Review Committee. On September 22, 2017, the GoE formally requested an AF as an IDA credit from the World Bank for the completion of the development of the two IPs funded by the parent project.

3. **The project is of strategic importance for Ethiopia as its economic impact remains strong. Its activities are central to supporting the GoE's industrialization agenda** by strengthening the legal, policy, and institutional framework of IPs; providing quality industrial infrastructure for manufacturing in strategic sectors including garment, textiles, and pharmaceuticals; and facilitating stronger economic linkages between the IPs and the local economy. It supports the objective of Pillar 1 of the Country Partnership Framework (CPF) for the period FY18–FY22 (Report No. 115135-ET), to promote structural and economic transformation through increased productivity, revenue generation, export promotion, import substitution and employment creation effects.

4. **In addition to the AF, a restructuring is being sought to** (a) change Project Development Objective (PDO) to replace the term "industrial zones" with "industrial parks" (b) make changes in costs and components; (c) reallocate funds between disbursement categories; (d) extend the closing date by one year from June 30, 2020, to July 7, 2021; (e) revise indicators in the Results Framework (RF); and (f) make changes in procurement to adopt the New Procurement Framework (NPF).

5. **The proposed AF will not change safeguards arrangements that are currently in place for the parent project.** No additional safeguards policies will be triggered and there will be no change in the project's safeguards category. The overall risk rating is maintained as Substantial to reflect increased economic and political and governance risks and their potential impact on the successful implementation of the project. The current Environmental and Social Impact Assessment (ESIA) and Environmental and

Social Management Plan (ESMP) instruments assessed the entire Kilinto IP site and covered the entire scope of the civil works.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Country and Sector Background

6. **Despite strong economic performance over the past decade, Ethiopia remains challenged by the need to create jobs for its fast-growing population of over 100 million, including for an estimated 20 million Ethiopians living below the poverty line.** Gross domestic product per capita was estimated at US$711 in 2016, with more than 70 percent of the population engaged in the agricultural sector. Demographic transition has presented opportunities and challenges for the country, with an increasingly urbanized, young working-age population. In 2013, 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 (22 percent) and about one-fifth of wage workers earned below the poverty line in 2013. A gender gap in labor participation persists, with a 77 percent participation rate for women, and 87 percent for men. In the most recent Global Gender Gap report 2017 published by the World Economic Forum, out of 144 countries benchmarked, Ethiopia is ranked 109 for economic participation and opportunity, and 95 for wage equality for similar work.

7. **Industrialization is the primary means by which Ethiopia hopes to realize its economic transformation,** a process that is intended to further reduce poverty and provide jobs for Ethiopians, and achieve the ambitious aim of transitioning Ethiopia's economy to lower-middle-income status by 2025. Through the GoE's Growth and Transformation Plan II (GTP, 2016–2020), the Government seeks to boost the growth of the manufacturing and agricultural sectors as important sources of employment and exports. The performance of the manufacturing sector remains weak. In 2014 it contributed just 4.4 percent of GDP. Over the last decade, the manufacturing sector has grown at 10.9 percent, growing at the same rate as real GDP growth.

8. **A key focus of the Government's industrial policy and transition to manufacturing is on the establishment of IPs throughout the country.** The Government is emulating East Asian countries that have successfully used IPs as a platform to catalyze private investments to create jobs, generating exports and foreign exchange. Currently, the Government has four operational IPs (Bole Lemi-I, Hawassa, Mekelle, and Kombalcha), which are leased out for investors. Key sectors prioritized for development include textiles, apparel, leather and leather products, agroprocessing, pharmaceuticals, and chemicals. Underpinning the Government's industrialization vision, there are several government entities, including the Prime Minister's Office, Ethiopian Investment Board (EIB), Ethiopian Investment Commission (EIC), Industrial Parks Development Corporation (IPDC), Ministry of Industry (MoI), and Ministry of Finance and Economic Cooperation (MoFEC).

9. **Global experience confirms that IPs benefit from agglomeration effects, economies of scale, and spillover effects to local companies through quality improvements, human resources and contracting practices, as well as access to international markets.** IPs provide an opportunity to experiment with

reforms and new policies which can later be rolled out nationwide. They also provide one stop services and improved business environment for investors compared to the rest of the country. Provision of planned serviced land is critical for attracting private sector investment. IPs provide opportunities for new employment, import substitution, export and economic growth.

10. **Ethiopia has been successful in attracting foreign direct investment (FDI) in light manufacturing in garment and textile, leather, and agroprocessing sectors** by leveraging its relatively low labor costs, competitive energy costs, and preferential market access to the European Union and United States. In 2016, Ethiopia received one of the highest FDI inflows in Africa, US$3.2 billion, a 46 percent annual increase.

11. **Key constraints relating to poor trade logistics, access to finance, low skilled labor, and low retention of labor contribute to the under performance of the manufacturing sector**. Low availability of skilled labor, combined with low labor retention, impacts the competitiveness of firms in IPs. Firms operating in Bole Lemi-I and Hawassa IP struggle to source workers due to a combination of factors including low wages, averaging between US$30–50 per month, lack of affordable housing around the IPs, and competition from a higher paying construction sector. These factors also contribute to a high labor turnover of nearly 100 percent per year in Bole Lemi-I IP. However, Ethiopia is still in its early days of operating IPs, and these challenges are being gradually addressed as the capacity within the IPDC and EIC improves. This project, alongside other WB and development partner engagements, will help Ethiopia to address some of these operational challenges including labor sourcing, housing, and longer-term sustainability through private sector participation.

12. **The GoE's manufacturing-led development strategy will have to carefully monitor recent global trends and advances in technology including robotics and 3-D printing.** These advances may cause changes in the criteria that make locations attractive based on aspects such as low-labor costs leading to disruption in low-skilled labor. As noted in a recent World Bank Report,[1] the technological advances and their potential disruption to manufacturing emphasize the need for countries such as Ethiopia to improve competitiveness to reduce unit labor cost, build capabilities to improve workers skills, and improve services which are critical for manufacturing such as trade logistics. These are growing areas of government focus through other initiatives to complement its work on IPs. The technological advances in manufacturing also require diversification to skill-intensive sectors. GoE's commitment to develop the pharmaceutical manufacturing sector is aligned with this agenda.

B. Parent Project Background

13. **The CJC Project is a US$250 million IDA credit which was approved on May 13, 2014, and became effective on August 24, 2014.** It was designed as a programmatic and phased approach for development of IPs in Ethiopia focusing on Bole Lemi-II and Kilinto IPs. The PDO is to contribute to job creation by

[1] World Bank.2017. *Trouble in the Making? The Future of Manufacturing-Led Development.*

attracting investments and improving competitiveness of enterprises in the targeted industrial parks and their linked domestic enterprises.

14. **The CJC Project has four components:**

(a) **Component 1:** Institutional and regulatory framework and capacity building

(b) **Component 2:** Support for industrial infrastructure

(c) **Component 3:** Enhancing IP linkages to the local economy

(d) **Component 4:** Project management and monitoring and evaluation

15. **In May 2015, the project was restructured to change the implementing agency from the MoI to the IPDC.** The IPDC is a public enterprise established by the Council of Ministers Regulation 326 of 2014 with the mandate to develop and administer IPs in Ethiopia. The IPDC's activities include constructing buildings, leasing developed land, leasing and transferring land, leasing buildings, and preparing detailed master plans.

16. **Progress toward achieving the PDO has consistently been rated Moderately Satisfactory since December 2015.** The parent project lists the following PDO-level indicators:

(a) **Number of jobs created by activities linked to the supported IPs.** The parent project targets the creation of 32,000 jobs of which 30,000 are within firms operating in the IPs and the remaining within the local suppliers supported by the linkages fund.

(b) **Total sales value of goods and services linked to the supported IPs.** The project target is US$280 million in total sales of goods and services linked to the IPs through exports and through sales of goods and services by local suppliers.

(c) **Direct beneficiaries**, of which are trained trainers.

17. **The outcomes of the PDO-level indicators are directly linked to the commencements of the operational phase of the IPs.**

18. **The parent project has been instrumental in informing the government's IP strategy.** It helped to address challenges faced by the initial phase IPs, including Bole Lemi-I, which became operational in 2014, and the privately owned Eastern Zone IP. The performance of these first-phase IPs was significantly affected by a lack of: (a) a well-functioning regulatory, policy and institutional framework; (b) weak strategic planning and a demand driven approach; and (c) lack of systematic investment promotion approach to attract anchor investors. Through technical assistance from the parent project, a number of these challenges have been addressed, and the quality of the infrastructure and the performance of the subsequent IPs have improved, such as Hawassa IP. The Parent Project supported the reorganization of

the then Ethiopian Industrial Development Zones Cooperation (EIDZC) under MoI to create IPDC, and the IP Regulatory Deputy Commission under the EIC. IP specialists from the World Bank and advisors financed through the Parent Project provided technical advice to staffing plans and job descriptions for key management and director level positions. The Parent Project also supported initial site assessments, preliminary design review, and input for preparation of terms of reference for the ESIA of the Hawassa IP.

19. **The Parent Project supported the passing of the Industrial Parks Proclamation (886/2015) and the Industrial Parks Regulation (2017), which together constitute the main legal framework for IPs in Ethiopia.** The Industrial Parks Proclamation codifies the designation, development, and management of IPs in Ethiopia and specifies rights and obligations of IP developers, operators, and firms operating in the IPs. The Industrial Parks Regulation on the other hand clarifies roles and responsibilities of different public entities including IPDC and the EIC for the efficient management of IPs. In addition, the project played a pivotal role in capacity building for IPDC and EIC, from their inception, including the design of key operational documents for IPDC and EIC: (a) standard operation procedures for IPDC for all its core functions, (b) investors aftercare strategy for IPDC, and (c) draft investment promotion Strategy for IPDC.

20. **Implementation progress has been rated Moderately Satisfactory since April 2017.** The CJC Project was a slow-disbursing project until March 2017 due to delays in starting civil works for the construction of the two project-supported IPs (Component 2) which accounts for over 70 percent of the total project financing. There was an initial significant delay in completing the design works of the IPs due to lack of capacity of the consulting firm hired by the client; however, with concerted efforts by the client supported by the World Bank team, designs were completed and the civil works contracts were awarded in February 2017. Since the start of the civil works in March 2017, disbursements under the project have risen steadily and stand at 83 percent in the beginning of April 2018.

21. **According to the most recent Implementation Status and Results Report (ISR) of April 2018, the implementation progress of Components 1 and 3 are rated Satisfactory and Components 2 and 4 are rated Moderately Satisfactory.** Performance by component is discussed below:

(a) **Component 1 (Institutional and regulatory framework and capacity building) - Satisfactory.** Key results achieved under this component include the IP regulatory framework described above. In addition, the regulatory function of IPs has been created within the EIC. The project has provided support for technical advisory services and capacity building to the IPDC and the EIC to enhance their capacity to develop and manage IPs across the country. These interventions are complemented by support from the Investment Policy Program of the International Finance Corporation (IFC) which provides advisory and institutional support on investment promotion to the EIC. The project has facilitated learning exchanges for senior policy makers from the IPDC, EIC, and Ethiopian Revenue and Customs Authority to aspirational peer countries including the Philippines, Singapore, and Malaysia. Procurement for the creation of the Customer Relations Management and Enterprise Resource Planning (ERP) systems for the IPDC and the EIC, respectively, is ongoing.

(b) **Component 2 (Support for industrial infrastructure) – Moderately Satisfactory.** As of end-March 2018, physical progress of civil works of Bole Lemi-II and Kilinto was at 69 and 66 percent respectively[2]. The contracts for the civil works at the two IPs started on February 14, 2017, with a contract period of 12 months instead of the earlier planned 36-month construction period. The Government provided an interim no-cost extension to the civil works contracts following the lapse of the contract period on February 28, 2018. A more detailed analysis is being done to determine the total extension period. The Government estimates that the construction will be completed by September 2018.

(c) **Component 3 (Enhancing IP linkages to the local economy) - Satisfactory.** The project has provided basic technical training and soft skills training to over 1,800 new recruits, primarily hired by the factories operating in Bole Lemi-I IP, of which 80 percent are female. Under the business-to-business linkages fund, seven domestic small and medium enterprises (SMEs) have signed linkages grant agreements with the IPDC to receive funds that will strengthen the capacity of the SMEs to sell quality and competitive goods and services to firms operating in Bole Lemi-I IP. The beneficiary firms of the matching grant program are in the process of procuring machinery and consultancy services for training and certification to improve their firm capabilities. In the short to medium term, the matching grants program is expected to increase local sourcing of products such as boxes, polybags, cartons, accessories, and products where there is immediate demand from the FDI firms in IPs, the project will increase economic spillovers from the IPs through transfer of knowledge and technology from FDI companies to domestic firms through the matching grant scheme.

(d) **Component 4 (Project management and monitoring and evaluation) – Moderately Satisfactory.** The Project Implementation Unit (PIU) is fully operational with key staff on board including a project coordinator, financial management (FM) and procurement specialists, and technical staff including engineers to oversee the supervision of the civil works contract; however, the PIU needs to improve aspects of project monitoring. The project will further enhance the capacity of the PIU by providing experts in contract management and training on monitoring and evaluation (M&E). Resettlement of project-affected people (PAP) was completed. The project has established a kindergarten, and provided resources for youth center, fitness center, and primary school within the resettlement area of Bole Lemi.

22. **The project is in compliance with the legal covenants.** Time-bound legal covenants to submit the Industrial Parks Proclamation before January 30, 2015, and to provide procurement training within three months of project effectiveness have been complied with. Legal covenants relating to safeguards, operations manuals for IP financing and for matching grants have been complied with and will continue to be monitored for the duration of the project.

[2] The progress with material on site is 78 percent for Bole Lemi-II and 93 percent for Kilinto IP.

23. **On March 29, 2018 the Regional Vice President, with concurrence from OPCS Vice President, has granted an exception to proceed with the preparation of the AF** under Paragraph 28, Section III of the World Bank Group Policy on IPF (November 10, 2017). The exception was sought because the project overall Implementation Progress was rated moderately unsatisfactory for a period until April 27, 2017.

C. Rationale for AF

24. **As discussed above, the proposed AF in the amount of US$175 million is being sought to enable the completion of activities of the parent project and to achieve its development objectives.** The AF addresses a financing gap resulting from (a) a substantial increase in scope of activities for the construction of Kilinto IP; (b) quality enhancements in key features of the IPs, such as the Wastewater Treatment Plants (WWTPs) accounting in excess of US$50 million for the two IPs; (c) additional costs for reducing the construction period by 24 months to accommodate investor demand; (d) reduction in project funds due to the devaluation of the SDR against the U.S. dollar and inflation of prices; and (e) additional technical assistance for safeguards, park operational sustainability and US$10 million in contingency. The project will support the EIC and the IPDC through critical early stage of park operation including addressing a range of regulatory issues, investor relations, and labor related topics to maximize development impact.

25. **The decision to incur this additional cost was made by the GoE after due consideration of advice received and subsequently concluding that the business benefits, including opportunities for employment creation, import substitution, and export growth, in each instance outweighed the increased cost.** The economic analysis supports this conclusion. The price discovery for construction costs was by international competitive bidding, which was compliant with World Bank Procurement Guidelines.

26. **The counterfactual of not supporting the AF with an IDA credit would lead to** (a) substantial penalties for payment defaults with the contractors under Component 2 (assuming that the GoE would not be able to address the financing gap from their own resources, especially given the foreign exchange crunch faced by the Government) and (b) delay in completing one or both parks until alternative funding sources are identified, resulting in delays in deriving all the economic and social benefits set out in the project (such as employment, growth, revenue, and domestic linkages).

27. **The AF will finance three components of the parent project:**

- Transaction advisory services for operational and financial sustainability of the IPs (Component 1) - US$2 million
- Address financing gap for the civil works in Bole Lemi-II and Kilinto IPs (Component 2) - US$160 million
- Address cost overruns for activities related to social safeguards and project implementation (Component 4) - US$3 million

28. It is proposed to have a contingency amount of US$10 million in the AF.

29. **A significant part of the AF is for civil works (Component 2) for Kilinto and Bole Lemi IP totaling US$160.1 million, including feasibility studies, environmental and social assessments (which did not change).** Cost increase can be attributed to the following:

(a) **Increase in scope of works to be financed under the project for Kilinto IP.** The total amount for the feasibility and environmental assessments and civil works for Bole Lemi and Kilinto IPs increased from US$197.2 million allocated in the parent project to US$414.0 million in actual contracts awarded. This estimated financing gap is primarily due to the increase in scope of work to be financed under the project for Kilinto IP. It was initially envisaged that the development of Kilinto IP will be phased and on-site infrastructure would be provided by private sector developers. The GoE, however, decided to develop the entire Kilinto IP in one phase due to strong investor demand and to provide just enough on-site infrastructure that would attract the private sector to invest and develop their own facilities on fully serviced leased plots. There are also essential items such as power supply (US$81 million for the 2 IPs), which explain the funding gap. (See annexes 6 and 7 for detailed changes in construction costs for Bole Lemi-II and Kilinto IPs.)

(b) **Demand-driven quality enhancements for the IPs.** The scope change comprises not only changes in physical extent of the land developed but also enhanced park features which would draw tier 1 tenant companies, such as specialized WWTPs that are expected to cost US$51 million for the two IPs.

(c) **Reduction in the construction period by two years.** Faced with the increasing demand for industrial land from investors, the Government decided to reduce the contract period of civil works for both IPs by 24 months in the final bid documents compared to the initial 36 months stated in the prequalification documents of 2014. The client weighed the pros and cons of this decision and concluded that it still made commercial sense to retain (i) investor interest; (ii) earn earlier rental yields; and (iii) realize other economic benefits such as job creation, exports, and growth, despite some associated cost increases for both IPs.

(d) **Reduction in loan amount due to devaluation of SDR against the U.S. dollar and price inflation.** The total loan amount of the parent project was reduced by US$23.3 million due to devaluation of the SDR against the U.S. dollar, adding significantly to the funding gap to cover the contract costs. Price increases between appraisal in 2013 and the contract negotiations in December 2017 also added to the cost overrun, and are significant cost factors external to the project.

30. **Under Component 1, the AF will be used to leverage the recently enacted PPP Proclamation 1076/2018 which provides a legal framework for PPPs.** The existing IP program in Ethiopia is heavily relying on public funding, which is likely to become unsustainable going forward, as the fiscal bandwidth is getting tighter. The project will therefore support the Maximizing Finance for Development (MFD) agenda by providing technical assistance for the GoE to explore alternative funding models through

various PPP options to crowd in private sector investment and release the locked public equity in the existing IPs and find other ways of bringing in commercial financing into the activities undertaken in the IPs. Project activities will be closely coordinated with IFC and other parts of the World Bank Group to attract private investment to the two IPs. Operations and Management for Kilinto IP have already been identified as one of the priority projects in the World Bank PPP pipeline report for Ethiopia.

31. **Under Component 4, the AF will deepen the safeguards interventions under the parent project and cover costs needed to complete the livelihood restoration activities for PAP** for the Kilinto IP resettlement site**,** because the initial allocated funds in the parent project have already been spent on providing livelihood restoration activities for Bole Lemi-II IP PAPs**.** The AF will also need to meet the running costs for the PIU for the additional year that the project is proposed to be extended. In addition, the AF will also finance impact assessment of the two IPs supported by the project after they become operational, paying special attention to the women's employment and their professional advancement.

32. **As with the parent project, activities proposed in the AF are central to supporting the GoE's industrialization agenda.** This is achieved by strengthening the legal, policy, and institutional framework of IPs, providing industrial infrastructure for manufacturing, and facilitating economic links between the IPs and the local economy. The AF will bring benefits of employment generation, with a special focus on creating jobs for women and youth, export growth, and foreign exchange, in addition to the spill-over effects of skills upgrading, technology transfer and productivity enhancement to local firms. In addition, the project will play an important role in identifying sustainable models of worker sourcing and retention. The parent project is being implemented in the context of the Government's plans for rapid industrialization and structural transformation discussed earlier. By supporting job creation in manufacturing, the project will contribute toward Ethiopia's structural transformation agenda—shifting workers from less productive sectors to more productive sectors in industry, manufacturing, and related services.

33. **The EIC is undertaking an active investment promotion drive to attract FDI companies in the project supported IPs and Memoranda of Understanding (MoU) have been signed with potential investors for the IPs.** Similar to Bole Lemi-I IP, Bole Lemi-II IP with total leasable land of about 108 ha, has been earmarked to host predominantly textile and garment manufacturing firms. According to reports from the EIC, five FDI companies have signed MoUs with the EIC to lease a total of over 80 ha from Bole Lemi-II, equivalent to 80 percent of the leasable land in the IP. This indicates strong demand for serviced land from FDI companies new to Ethiopia and others already operating in other IPs but looking to expand.

34. **The GoE has identified Kilinto (IP) as a pharmaceutical manufacturing hub to promote import substitution over the short term, grow exports in the medium term, and improve access to medicines.** Although the parent project envisaged Kilinto as a multisector IP that would host firms in the electronics, food and beverage, and pharmaceutical sectors, the EIB has designated Kilinto IP as a specialized IP for pharmaceutical manufacturing. The pharmaceutical sector is one of the focus sectors in the GTP-II, and in 2015, the GoE developed a National Strategy for Pharmaceutical Manufacturing Development (2015–2025). According to this strategy, the GoE is targeting manufacturers in generic medicines. As of March

2018, the EIC reports that seven FDI pharmaceutical companies have expressed interest to lease land from Kilinto IP, of which four have signed MoUs with the GoE and three are in advanced negotiations to conclude the MoU. While pharmaceutical manufacturing is not as labor intensive as other industries such as textiles or garments, jobs created will be higher skilled and of higher wages. Other benefits of a local pharmaceuticals hub in Kilinto IP will include quality pharmaceutical products at more affordable prices available for local consumption. Attracting FDI in pharmaceutical manufacturing can contribute to improved standards of the local industries through joint ventures and improved regulation, as well as saving scarce foreign currencies through import substitution.

35. **Under AF, technical assistance will be given to ensure appropriate regulatory measures are in place for the pharmaceutical industry in Ethiopia**. Activities under CJC-AF will be closely coordinated with Health, Nutrition, and Population Global Practice (HNP GP) of the World Bank Group. Assistance will be provided in partnership with the World Health Organization (WHO) which is already engaged with the Ethiopian regulator, and will focus on areas of regulation that need to be strengthened to streamline the approval process for a manufacturer that wants to produce locally and serve the local market. There are synergies with the African Medicines Regulatory Harmonization initiative, a trust fund hosted by HNP GP, which supports the East African Community and Intergovernmental Authority on Development region with the goal of creating regional markets. This will improve the commercial viability of pharmaceutical manufacturing.

D. Lessons Learnt and Links to Current Operations

36. While the AF does not substantially change current activities in the parent project, the proposed reallocations from the restructuring have been informed by lessons learned during project implementation:

(a) **Encourage alternative procurement for civil works.** The project was designed with a traditional approach to procuring the construction, which was lengthy and inefficient compared to a 'Design and Build' option or the Build-Own-Operate approach. The counterpart's knowledge and capacity to undertake future IPs with such an approach will be strengthened under the AF.

(b) **Provide sufficient funds for environmental and social sustainability.** The parent project recognized the importance of allocating resources under the project to address environmental and social impact of the project, which has helped the client undertake the necessary safeguard assessment and provide livelihood restoration activities for PAPs. The AF and restructuring will allocate more resources (US$2 million) to cover the remaining livelihood restoration activities and to undertake an ESIA when the IPs become operational.

(c) **Matching grants should be coupled with technical assistance to SMEs and supporting institutions.** The linkages fund component of the parent project provided only matching grants to qualifying SMEs to boost their capacity to sell goods and services to IP-based FDI, but it did not allocate funds to provide them with technical assistance. Among the pilot beneficiary firms, the matching grant was used for purchase of machinery and equipment with a limited number of firms requesting training or capacity building support. In the proposed restructuring, US$4 million will be allocated for technical assistance to local SMEs to improve management capacity and facilitate the certification process to enable them to meet compliance requirements of international buyers.

(d) **Firms operating in the IPs need to be supported to source workers due to the high labor turnover.** Supply and retention of workers is a significant challenge to operations in the IPs. Firms operating in Bole Lemi-I report a monthly turnover of workers of over 10 percent. This increases cost of training workers and disrupts production. The skills center subcomponent under Component 3 will be maintained to identify sustainable models of worker sourcing and to provide basic soft skills training for new workers in the IPs, especially women.

37. **The AF will closely coordinate with planned and ongoing World Bank Projects including the following:**

- **The Economic Opportunities Project** *(P163829, pipeline, expected effectiveness on July 31, 2018)* has a program to support the environmental, social, and financial sustainability of IPs.
- **Ethiopia: SME Finance Project** *(P148447, Board Approval on May 17, 2016)* provides access to finance to SMEs and supports financial institutions to introduce financial products that serve SMEs and can support IP-SME linkages.
- **IFC Investment Policy Advisory Project** *(IFC-00600316, implementation start date October 25, 2014)* supports reforms to improve the investment climate and investment promotion.
- **Ethiopia: National Quality Infrastructure Development Project** *(P160279, Board Approval on March 31, 2017)* improves the delivery of quality assurance services to enterprises in targeted sectors.
- **Ethiopia Trade Logistics Project** *(P156590, Board Approval on March 31, 2017)* enhances the performance of the Ethiopia-Djibouti corridor through improvements in operational capacity, efficiency, and range of logistics services at the Modjo Dry Port.
- **IFC Ethiopia Green Industry Project** *(IFC-00602203, implementation start date January 5, 2018)* aims to ensure that the growth of the textile and footwear sector is environmentally sustainable and competitive.
- **The Ethiopia Health SDG Program for Results** *(P123531, Board Approval on February 28, 2013)* has DLIs linked to Pharmaceuticals Fund and Supply Agency (public procurement agency/central medical store).

- **HNP GP Advisory Services and Analytics (ASA) on the private health sector in Ethiopia** *(pipeline, expected implementation start date July 1, 2018*) will include support for strengthening the regulatory and policy framework for private sector participation in the pharmaceuticals industry in Ethiopia.

III. DESCRIPTION OF ADDITIONAL FINANCING AND RESTRUCTURING

38. **Change in PDO.** The term "industrial zones" will be replaced with the term "industrial parks". According to the Industrial Parks Proclamation, (886/2015), 'industrial park' means an area with distinct boundary designated by the appropriate organ to develop comprehensive, integrated, multiple, or selected functions of industries, and includes special economic zones, technology parks, export processing zones, agroprocessing zones, free trade zones, and the like designated by the EIB.

39. **Change in components and costs.** In addition to the AF, funding will be reallocated through restructuring between project components as follows: (a) reduce the financing gap in Components 2 and 4; US$7 million from the Component 3 matching grant scheme of the parent project will be reallocated, of which US$6 million will be allocated to Component 2 and US$1 million to Subcomponent 4.2 on social safeguards and (b) US$21 million of contingency funding will be reallocated to Component 2 to immediately help meet the financing gap arising out of the expansion of scope of activities in the two supported IPs. An additional US$10 million is proposed as contingency for the AF. Proposed cost allocation by component is shown in table 1.

Table 1. Cost Allocation by Component

		Cost Allocation (US$, millions)		
	Current	**AF**	**Reallocation**	**Total**
Component 1: Institutional and regulatory framework and capacity building	6.1	2		8.1
Component 2: Support for industrial infrastructure	197.2	160	21 + 6	384.2
Component 3: Enhancing IP linkages to the local economy	17.2		−7	10.2
Component 4: Project management and monitoring and evaluation	8.5	3	1	12.5
Contingency	21.0	10	−21	10.0
Total	250.0	175	0	425.0

40. Revised costs per component are based on: (a) the difference between the allocated amounts to Component 2 and the contract amounts for civil works in Bole Lemi-II and Kilinto IPs: (b) estimates from the borrower on additional funds needed to complete activities under Components 1 and 4; (c) revised downward estimates for Component 3; and (d) calculation of loss of funds due to exchange rate fluctuation between SDR and U.S. dollar during the loan period.

41. **Changes in withdrawal categories.** The following changes are proposed: (a) For the original financing, reallocate from Category 3 PPA to Category 1 amounting SDR shown below SDR 1,948,170; (b) for the original financing, reallocate from category 2 Matching Grants to Category 1 SDR 5,819,350; (c) For

the original financing, closing date is extended to July 7, 2021 (d) for AF, create two categories to top-up Category 1 and 4 of the original financing; (e) for AF, financing percentage of 100 percent for both categories of AF, but they will only be used upon full disbursement of the respective Category 1 and 4 of the original financing.

42. **As a result, the withdrawal categories of the Financing Agreement number IDA54510 will change as shown in Table 2.**

Table 2. Withdrawal Categories in Parent Project

Category	Category Description	Original Allocation (SDR)	Revised Allocation (SDR)	Change (SDR)
1	Goods, works, non-consulting services, consultants' services, Training and Workshops, Operating Costs under the PIE's respective parts of the Project	149,229,387	156,996,907	7,767,520
2	Matching Grants	8,405,000	2,585,650	-5,819,350
3	Refund of Preparation Advance	2,350,000	401,830	–1,948,170
4	Goods, Works, Non-Consulting Services, Consultant Services, Training and Workshops and Operating costs under EIC's Respective Parts of the Project	1,615,613	1,615,613	0
Total		**161,600,000**	**161,600,000**	

43. For the AF, the withdrawal categories are shown below in table 3.

Table 3. Withdrawal Categories in AF

Category	Category Description	Amount of the Credit Allocation (US$)	Percentage of expenditures to be Financed (inclusive of Taxes)
1	Goods, works, non-consulting services, consultants' services, Training and Workshops, Operating Costs under the PIE's respective parts of the Project	174,700,000	0% until IDA 5451 category 1 is fully disbursed thereafter 100%
2.	Goods, Works, Non- Consulting Services, Consultant Services, Training and Workshops and Operating costs under EIC's Respective Parts of the Project	300,000	0% until IDA 5451 category 4 is fully disbursed thereafter 100%
Total		**175,000,000**	

44. While the original components of the project will continue to be implemented, additional activities will be included under Components 1 and 4 as discussed in the section below.

45. **Component 1: Institutional and regulatory framework and capacity building (AF - US$2 million).** Under the AF, the project will provide transaction advisory for structuring PPPs for the operation and maintenance of Bole Lemi-II and Kilinto IPs, as well as to structure PPPs for the provision of IP-linked infrastructure such as housing for workers in the IPs. This will be done in close coordination with IFC and other parts of the World Bank Group to maximize the MFD impact in Kilinto and Bole Lemi-II IPs. In addition, the AF will provide technical assistance to key government agencies including Food, Medicine and Health Care Administration and Control Authority of Ethiopia (FMHACA) and Food, Beverage and Pharmaceuticals Industry Development Institute. This will leverage ongoing partnership with HNP GP and WHO, to ensure appropriate regulatory capacity for the speedy and competent processing of manufacturing and product licenses for the pharmaceutical industry in Ethiopia. HNP GP is currently undergoing considerable discussions with the Ethiopian counterparts regarding policy, regulatory, financial and capacity challenges constraining private sector participation in health activities in Ethiopia, including the pharmaceuticals manufacturing subsector.

46. **Component 2: Support for industrial infrastructure (AF - US$160 million and US$27 million through reallocation).** As indicated in table 4, the total AF estimate is US$160.1 million including the total losses to the project from foreign exchange fluctuations to complete the construction of Bole Lemi-II and Kilinto IPs. The remaining gap is calculated as follows: (a) total value added tax (VAT) of 15 percent to be deducted from the total contract amounts, (b) reallocation from the project contingency amount of US$21 million, and (c) US$6 million reallocation from the matching grant scheme under Component 3.

Table 4. Estimates for AF for Component 2 (US$, thousands)

Subcomponents	Original Allocation	Contract Amount	Financing Gap	Total Deductions from Financing Gap			Forex Losses[b]	Total AF
				Total VAT [a]	Reallocated from Contingency	Reallocated from Comp. 3		
2.1. Studies (Feasibility and Engineering Design Plans)	6,200	6,200						
2.2. Infrastructure Work								
2.2.1. Bole Lemi-II	124,200	157,758	33,558					
2.2.2. Kilinto-I	65,900	249,175	183,275					
2.3. Modern Social and Environmental Process	900	900						
Total	**197,200**	**414,033**	**216,833**	**−53,078**	**−21,000**	**−6,000**	**23,340**	**160,095**

Note: a. 15 percent of contracts awarded.
b. Loss on currency exchange rate fluctuation between SDR and U.S. dollar during the loan period

47. **Component 3: Enhancing IP linkages to the local economy.** The AF will not provide additional resources for activities under this component. Of the US$17.2 million allocated to Component 3 under the parent project, the subcomponent on skills development center will be maintained with its current

budget of US$2.2 million. Of the US$15 million allocated to the linkages fund, it is proposed to make the following changes:

(a) Reallocate US$7 million to reduce cost overruns in Components 2 and 4 of the parent project.

(b) Allocate US$4 million to provide technical assistance to local suppliers and for capacity building for institutions supporting local enterprises including the MoI and its linked industry institutes such as the Ethiopia Textile Industry Development Institute. Technical assistance to firms will focus on supporting local firms to meet compliance requirements of international buyers including adherence to labor and environmental standards, obtaining International Organization for Standardization certifications required by the buyers, and improving management systems. From the initial pilot of the matching grant, all seven initial beneficiary firms are owned by men. Going forward, technical assistance will be targeted to identify women owned/led businesses to be suppliers to the IPs.

(c) Maintain US$4 million for the linkages fund. According to current estimates, the US$4 million is sufficient to provide matching grants to the project target of at least 20 local SMEs to improve their capacity to sell goods and services to FDI firms operating in Bole Lemi-I IP. Currently seven firms have signed grant agreements to receive a combined amount of US$1.4 million as 60 percent contribution to total identified needs of the firms.

48. Efforts to facilitate linkages between the local economy and IPs will also leverage existing World Bank projects currently supporting SMEs, including SME Financing Project (P148447).

49. The Parent project will continue to support sourcing of workers, and provide soft-skills training to new and existing recruits, as well as supervisors, with a special focus on female trainees. Lessons learned from experience will help shape these activities going forward. While this component has so far been implemented in Bole Lemi-I where over 4,000 workers have been sourced from neighboring subcities, of which 1,800 have received soft-skills training, this support will have to be scaled-up to identify and train workers for Bole Lemi-II and Kilinto.

50. **Component 4: Project management and monitoring and evaluation (AF - US$3 million and US$1 million through reallocation).** This component includes funds for project management and M&E. The AF and reallocation would be allocated as follows: (a) US$2 million to cover running costs for the PIU; (b) US$1 million to complete the livelihood restoration activities for PAPs; and (c) US$1 million to cover any emerging social safeguards issues when the IPs become operational. A total of US$2 million is proposed to be committed to address social safeguards issues to ensure that the GoE is able to provide infrastructure in the resettlement sites and community development initiatives for PAPs. As explained in section V.E, the parent project has already provided infrastructure including access to electricity to PAPs. AF resources will be used to complete livelihood restoration activities especially for Kilinto PAPs. The AF will also finance impact assessment on the operations of Bole Lemi-II and Kilinto IPs.

51. **Changes in Results Framework (RF).** During AF preparation, the team reviewed the RF prepared under the parent project and identified changes needed to strengthen the PDO and intermediate level indicators. As a result, PDO-level indicators have been revised to (a) reflect increased scope of works (b) streamline some of the indicators to strengthen alignment with the PDO (c) add/modify target values for subcomponents not accounted in the current RF. Moreover, intermediate indicators have been revised to reflect changes to the design under the parent project and to add new indicators on citizen engagement (CE) and gender. For all indicators, the target date was extended to year-end FY2021, to reflect the new project closing date. Specific changes to PDO and intermediate indicators are outlined in Annex 2.

52. **Extension of closing period by one year to 2021.** The closing date of the parent project will be extended by one year to allow for full operationalization of IPs supported by the project. Due to delays in starting the construction works, the first tenants are expected to start building sheds by late 2018. Once the first tenants begin operations by January 2020, the IPs will start realizing their job creation potential. The linkages potential will however only be fully realized by 2022. The revised closing date of the project will be July 7, 2021.

53. **Changes in procurement.** The AF project will adopt the NPF according to the World Bank Group policy. The new framework allows for greater focus on value for money, more ways for bidders to differentiate bids, and more opportunities for dialogue and discussion. Following the NPF, needs and risks of a project are analyzed through a Project Procurement Strategy for Development (PPSD) which has been prepared for the CJC-AF.

IV. KEY RISKS

54. **Institutional capacity for implementation and sustainability is maintained as Substantial.** Although project activities over the last three and a half years have enhanced the capacity of the IPDC and the EIC, there is a risk of a potential knock-on effect from the current political and governance challenges. The risk is mitigated somewhat as the implementing agency has adequate funding available, and it is fully staffed. The project will continue to provide technical assistance to the EIC as the IP regulator and to the IPDC. Capacity of IPDC and EIC will also be further strengthened by complementary technical assistance by the Investment Climate Program being implemented by the IFC and other development partners.

55. **Political and governance risk remains Substantial.** In the recent past, Ethiopia has suffered continued civil unrest characterized by widespread demonstration across the country. Since October 2016, the Government has declared a state of emergency twice with the most recent starting on February 16, 2018. There is a risk that further tensions between the Government and civil society could affect the performance of the project by slowing the momentum of attracting FDI that are targeted to be in the project-supported IPs. While political and governance risk cannot be adequately addressed by the project, a robust CE strategy will be developed that will focus on broad consultations and sharing information about the project activities with stakeholders including members of the business community and prospective workers in the IPs. The project will ensure that these consultations include adequate participation of female stakeholders.

56. **Macroeconomic risk is upgraded to Substantial.** Ethiopia is facing an acute shortage of foreign exchange which is affecting the ability of companies particularly domestic manufacturers to import inputs for manufacturing. This could discourage FDI companies that are targeted to operate in the IPs from investing in Ethiopia. For local companies that will be linked to the IPs, there is a risk that the shortage of foreign currency will reduce their operations. In the medium term when the IPs are operational, exports generated from the IPs can help generate the much-needed foreign exchange.

57. **Environmental and social risks also remain Substantial.** Environmental risks remain Substantial because of the likely impact of industries that will be established in Bole Lemi-II and Kilinto IPs designated to host garment and textile and pharmaceutical manufacturers, respectively. When the IPs become operational, there is a risk of increased greenhouse gas emissions. To mitigate some of the environmental risks, project-supported IPs have upgraded wastewater treatment to advance conventional and zero liquid discharge plants for Bole Lemi-II and Kilinto IPs, respectively. Social risk is Substantial stemming from long-standing tensions over land because the project-supported IPs are in the part of Addis Ababa bordering the Oromia Region which faced protracted political and social unrest. The project will continue to implement a robust CE strategy and Grievance Redress Mechanism (GRM) to address some of these environmental and social risks. Under the World Bank's Economic Opportunities Project P163829 (pipeline, expected effectiveness on July 31, 2018), the capacity of IPDC to address environmental and social risks will be improved further through providing regular trainings on environmental and social systems.

58. **Stakeholders risk is upgraded to Substantial,** taking into account potential stakeholder coordination challenges related to the development of Kilinto IP as a pharmaceuticals manufacturing hub, and risks related to managing labor relations.

59. **Due to the considerations outlined above, overall risk assessment is maintained as Substantial.**

V. APPRAISAL SUMMARY

A. Economic and Financial Analysis

60. **IPs are an important channel to foster development, which has been adopted by many developing countries.** The growth sustained by the technology used in the IPs opens opportunities for creating new jobs, improving local productivity, strengthening linkages to the domestic economy, and maintaining a competitive environment in the respective country (Markusen et al, 1986). In addition, producers operating in the IPs will get greater benefits at lower costs and are likely to benefit from knowledge spillovers which are known to improve productivity in both established and nascent industries. The chance to obtain additional benefits by supporting local development and the opportunity to create new jobs along with the income growth will positively influence the local economic development (Castells and Hall, 1994).

61. **The development of industrial parks lies at the core of the GoE's industrialization strategy.** While private sector involvement in the development and operation of special economic zones is not

uncommon in Africa and other regions, Ethiopia still lacks experience in the implementation of hybrid models such as PPPs. Furthermore, its private sector is small, and the country struggles with creating jobs for a rapidly growing population. Hence, public sector financing provides an appropriate vehicle to kickstart the economic transition toward higher-value added industries, particularly in projects which at the inception phase would not be attractive or financially viable for the private sector.

62. **The World Bank brings a unique and comprehensive approach to industrial park development which goes beyond the provision of infrastructure.** The project is conceived as a holistic and multifaceted intervention that reflects the Bank's value addition in promoting job creation and investment in a socially and environmentally sustainable way. It also fosters innovation in key areas that are intended to unleash the latent potential in the services and manufacturing industries: domestic SME support programs, gender and youth inclusion, skills development, and quality standards. Added to this, the recently enacted PPP Proclamation 1076/2018 provides a legal framework for PPPs and hence an opportunity to maximize private sector financing and capacity for development projects. The World Bank is already supporting this agenda through financing advisory services to develop, structure, and market projects and attract private investment through PPPs and other financial models.

63. **The economic and financial analyses for the AF were completed in April 2018** to reflect (a) financing gap resulting from the ongoing construction contracts for the two project-supported IPs, (b) changes in two project-supported IPs' spatial configuration and land-use plans; and (c) an increase in acreage and expanded scope of Kilinto IP. The updated analysis for the AF followed the same methodology used in the financial and economic analysis of the parent project, that is: (a) the market value of revenues and costs associated with IP construction to obtain the project's internal cash flows; and (b) wider project benefits to capture the investment's opportunity cost. The financial and economic analyses were calculated over a 40-year period in consistency with the Government's policy directive to price serviced land at both IPs at cost recovery over a 40-year period. The analyses take a discount rate of 10 percent which is in line with large-scale infrastructure projects in Ethiopia.

64. **The economic analysis considers the higher costs to be covered with the AF,** especially: (a) losses due to foreign exchange rate fluctuation between SDR and U.S. dollar during the loan period; (b) the upgrade of a WWTP to advance conventional and zero liquid discharge plants for Bole Lemi-II and Kilinto IPs; (c) an increase in project scope at Kilinto whereby the World Bank will finance Phases 1 and 2, bringing the total area of serviced land available for leasing from 46 ha to 178 ha; and (d) the acceleration premium resulting from a two-year construction time line which will make serviced plots available for prospective company tenants earlier in time, therefore bringing in investment, job creation, and revenue earned from the firms located in the supported IPs earlier.

65. **Financial analysis.** Based on the updated assessment, the results from the financial analysis indicate that for Bole Lemi-II, the internal rate of return (IRR) will be 4.2 percent with a negative financial net present value (NPV) of US$49.9 million, while the financial IRR for Kilinto will be 3.5 percent with a negative NPV of US$77.1 million. The negative financial NPV arises from rental prices for serviced land in both IPs that have been set by the Government at cost recovery rates (see below).

66. **Economic analysis.** The methodology used for assessing the project's financial flows is conservative and narrow in scope and does not consider economy-wide benefits resulting from the CJC Project. Specifically, the economic analysis calculates: (a) value addition from land development and servicing in the two parks based on an updated simulation of land value appreciation; (b) additional income from direct, short-term, and long-term employment created in firms located in the IPs as well as new jobs created through the business-to-business linkage fund; (c) additional income from indirect and induced employment; and (d) VAT from construction materials to the Government.

67. **Results.** The economic analysis indicates that the project economic rate of return (ERR) is 10.7 percent with an NPV of US$17.2 million. The positive economic returns, added to the Government's job creation and private sector development objectives, provide a sound rationale for World Bank's involvement.

68. **Greenhouse gas emissions have been modelled in the economic analysis**. The net emissions for the wastewater collection and treatment activities are expected to be -175,773 tCO2-eq over the 20-year economic life of the two WWTPs, demonstrating a net emissions reduction[3]. The inclusion of the CO2 emission costs in the economic evaluation increasing the ERR, from 10.7 percent to 10.9 percent and an NPV of US$26.0 million compared to the baseline scenario, with high shadow price of carbon.

69. **Counterfactual scenario.** A 'without-AF' counterfactual scenario was considered, whereby (a) Kilinto is scaled down to 68 ha of serviced land available for lease, which is the area that would have been affordable in the absence of the AF and considering the lowest bids for both parks,[4] and (b) the Government develops the IPs without World Bank financial support in a longer execution period. In this scenario, the benefits that would have been obtained because of the AF are visibly reduced. For example, income from direct, indirect, and induced employment would be 75 percent lower than in the base scenario, while value additionality from land development in supported IPs would be 135 percent lower. In the counterfactual scenario, the ERR drops to 7.5 percent with an NPV of US$69.3 million. Annex 4 provides further details on economic and financial analyses.

70. **Pricing Policy for Serviced Land at Project Supported IPs**: Rental rates for serviced land (without factory sheds) were set at US$3.31 and US$3.59 per m^2 per year at Bole Lemi-II and Kilinto, respectively. The Government set prices at the lower end of comparable IPs in an attempt to attract FDI, especially at the beginning of the project. The Bank discussed the broader pricing strategy and revenue models for the IPs with the GoE and would support implementation of a broader flexible approach towards future pricing policies. Four complimentary alternatives have been proposed: (a) amending or indexing rental prices to reflect the cost of the facilities that are being offered in project supported IPs to be mutually agreed with investors; (b) revising the prevailing management fee for the two project-supported IPs; (c) identifying different revenue streams such as charging for value added services and utilities; and (d) exploring options for alternative contractual arrangements under PPPs for the management of specific IP facilities such as

[3] The net emissions reductions are largely due to a reduced level of BOD5 and nitrogen reaching the local environment after treatment compared to an expected future without treatment baseline scenario.
[4] The counterfactual scenario assumes only the development of on-site infrastructure in both IPs and no off-site infrastructure.

the WWTPs. While at the initial stages of IP operations the prices of serviced industrial land will remain fixed at the cost recovery rate, the GoE has expressed flexibility to increasing prices based on market price surveys, subject to agreement with the tenants, and identifying other revenue streams to secure the long-term financial sustainability of the two IPs

B. Technical

71. **The rationale for the technical design is strong.** The AF will fund mainly the completion of the existing project activities within their current scope agreed under the parent project which will help expand the scale of activities and outcomes from the project. The PIU is well established with required engineering, fiduciary, safeguards, and management personnel. Feasibility studies for Bole Lemi-II and Kilinto IP were completed in 2014 and engineering design studies for the IPs were completed in 2015 under the supervision of the IPDC with technical inputs from World Bank specialists. Activities under Component 3 on business-to-business linkages are being implemented according to an approved Operations Manual that was developed upon consultations with stakeholders.

C. Financial Management

72. **The fiduciary arrangements instituted in the original project will also apply to the AF.** The FM arrangements as documented in the Project Appraisal Document, Project Operations Manual, and FM Manual under the parent project will continue to be applicable for the AF. Therefore, no change is envisaged with regard to FM arrangements as a result of the AF. FM implementation is rated Moderately Satisfactory. The project is in compliance with all financial covenants and reporting will continue according to the agreement in the legal documents and disbursement letter. The project will continue to submit quarterly Interim Financial reports (IFRs) that encompass the AF transactions. These IFRs will be submitted to the Bank within 45 days of the end of the quarter using the same formats agreed under the original loan. The Project will continue to have its financial statements audited by an auditor acceptable to the World Bank. The audit report which includes the audited financial statements of all sources of finance (including IDA's Original and this AF) will be prepared under the Terms of Reference agreed with the Bank for the original loan. The audit reports will be submitted to the World Bank within 6 months of end of the fiscal year. In regard to disbursement, the project will continue to use all disbursement methods (advance to designated account, reimbursement, direct payment and special commitments) available for the AF. Advance to the designated account will continue to be under the traditional or SOE method of disbursement. The same designated account and local accounts of the original loan will be used for the AF as a pooled designated account arrangement. The IPDC will continue to manage the Designated Accounts.

73. **The project received a clean audit report in the most recent period ending July 7, 2017.** According to the most recent FM Supervision Report of November 2017, it was noted that there have been significant improvements in FM performance at the project level. However, improvements are required in budgeting, accounting, and internal control. Significant improvements are required within the implementing entity (IPDC) to improve FM systems, in particular: gaps in the budgeting process, weak

internal audit function, inadequate human resources at finance and internal audit sections, inadequate capacity-building activities, inadequate accounting software in use at IPDC for the current volume of transactions, delay in maintaining a proper fixed asset register, and delay in finalizing FM and internal procedures manuals. Action plans are agreed to resolve all the shortcomings noted in the FM area. In addition, the project is financing entity-wide FM reforms including preparation of manuals and procedures for the entity, consultants, and most importantly the ERP solution/system of the entity. Once implemented, the project is expected to bring improvements in management information systems, including FM accounting system. In addition, the Economic Opportunities Project (P163829) will improve fiduciary systems of the IPDC including support to establish procurement directives and manuals.

D. Procurement

74. **Procurement of new activities under the AF will be carried out in accordance with the NPF**, specifically, World Bank's 'Procurement Regulations for IPF Borrowers - Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services', dated July 1, 2016, revised November 2017; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', revised as of July 1, 2016; and the provisions stipulated in the Legal Agreement. The AF shall mainly cover the financing gap of already existing contracts of the construction of Bole Lemi-II and Kilinto IPs. The AF shall also finance consultancy services and the procurement of goods.

75. **All procurement activities under the project shall be carried out by the CJC PIU, which is housed in the IPDC and established to manage the parent project.** The PIU was established within the IPDC and reports to the Chief Executive Officer. The PIU has received guidance and support from the World Bank team to familiarize the procurement and related staff on the new framework**.**

76. **A procurement capacity assessment of the PIU in the IPDC was carried out as part of the preparation of the proposed AF.** Main risks identified include the following: (a) given that the IPDC is a state-owned enterprise, the procurement legal framework does not encompass its procurement activities; (b) unavailability of the Tender Endorsing Committee and a streamlined procurement decision-making process; (c) inadequate procurement record-keeping practice at the PIU, (d) procurement staff turnover; and (e) delays in procurement processing. For the identified risks, the main recommendations are the following: (a) prepare a Procurement Manual that will be agreed with the World Bank; (b) establish a clear decision-making structure defined in the Procurement Manual; (c) improve procurement record-keeping practices at the PIU; and (d) improve staff compensation and working environment to mitigate the staff turnover problem.

77. **In addition, the main risks identified at the ongoing Bole Lemi-II and Kilinto IPs works contracts include** (a) repeated design alterations that lead to additional cost to the contract, (b) inefficient design approval process contributing to delays in the construction contract, (c) lack of proper material supply schedule as part of the overall contractors work schedule supported with realistic procurement and manufacturing schedule, and (d) limitations in anticipating contractual delay factors and addressing issues

on time. To address the identified risks, it is recommended to revise the key performance indicators to include the identified risks and monitor closely so that issues are identified and resolved early.

78. **In general, there is a gap in the availability of resources and track records to undertake successful procurement processing, bids/proposal evaluations, supplier selections, contract awards, and record keeping.** Efforts to recruit procurement-proficient personnel and enhance the capacity of these staff need to be strengthened. Challenges in the areas of record keeping need to be addressed through the provision of space and facilities and through capacity building for the establishment of a proper record keeping system.

79. **Based on the findings of the capacity assessment, the key issues and associated mitigation measures have been discussed and agreed with the borrower.** See Annex 5 for details.

80. **The World Bank will provide oversight of procurement activities through prior reviews.** Based on the initial risk rating, the borrower shall seek the World Bank's prior review for equivalent value of contracts as detailed in Table 5.

Table 5. Prior Review and Procurement Approaches and Methods Thresholds

Category	Prior Review Thresholds (US$, millions)	Thresholds for Procurement Approaches and Methods (US$, millions)				
		Open International	Open National	Request for Quotation	Short List of National Consultants: Consulting Services	Short List of National Consultants: Engineering and Construction Supervision
Works	≥5.0	≥7.0	<7.0	≤0.2	n.a.	n.a.
Goods, IT, and non-consulting services	≥1.5	≥1.0	<1.0	≤0.1	n.a.	n.a.
Consultants (Firms)	≥0.5	n.a.	n.a.	n.a.	0.2	0.3
Individual Consultants	≥0.2	n.a.	n.a.	n.a.	n.a.	n.a.

81. **The borrower has prepared the PPSD, which shall form the basis for a Procurement Plan (PP) for the first 18 months of the project life and also provides the basis for the procurement methods**. This plan is agreed between the borrower and the project team and will be available at the PIU in the IPDC. It will also be available in the project's database and in the World Bank's external website. The PP will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

E. Social (including Safeguards)

82. **Because the AF will finance the completion of construction of the same IPs supported under the parent project and the geographical area will remain identical with no new land acquisition requirements, the same risk factors remain relevant.** The current ESIA and ESMP instruments assessed the entire Kilinto IP site and covered the entire scope of the civil works in the two IPs, reflecting the agreed changes in scope. The project will remain Category A under the AF. No new safeguards policies will be

triggered. Under the parent project, Environmental and Social Management Plans were developed for Bole Lemi-II and Kilinto-IP. Social safeguards instruments, including Resettlement Action Plans (RAPs) for each site, Livelihood Restoration Plan (LRP), and Community Development Plans were prepared and implemented under the parent project. Social impacts have been assessed for the new investments to be accommodated under the AF.

83. **Social safeguards compliance is rated Moderately Satisfactory with significant progress in implementing the RAP for both Bole Lemi-II and Kilinto sites.** The parent project was involved in expropriation of 186 ha of land in Bole Lemi and 279 ha in Kilinto sites leading to a total displacement of 191 households in Bole and 15 households in Kilinto. Impact assessment and mitigation measures were outlined in site-specific RAPs for Bole Lemi-II and Kilinto, both cleared by the World Bank. An addendum to integrate additionally identified households with loss of agricultural land in the Kilinto project area has also been cleared by the World Bank. Compensation has been paid accordingly and fully to all physically and economically displaced households identified in the RAPs and in the addendum. Also, resettlement has been concluded based on both RAPs; however, the Kilinto RAP-Addendum did not lead to additional physical resettlement impacts. The resettlement area has been provided with basic infrastructure services including access roads, drainage facilities, preschool, and water and electricity supply. The PAPs in the Bole Lemi-II resettlement area have got a direct access to electric and water supply services. About 1,500 children of PAPs at Bole Lemi-II resettlement area have been given access to the primary and preschool education. In Kilinto, the resettled PAPs have received private electric and potable water supply connections. Livelihood restoration activities have been provided for PAPs in Bole Lemi-II including the provision of agriculture sheds for poultry and diary. However, the project has run out of funding to complete the livelihood restoration activities for PAPs in the Kilinto resettlement site and additional funds have been requested for this activity under the proposed AF. There is no land acquisition in the AF as no new construction components are included in the design.

84. **The PIU has a dedicated social safeguards specialist for the project responsible and accountable for social safeguards measures implementation and compliance.** Under the AF, implementation of the project’s social safeguards instruments including the LRP will be ensured with the support of its social specialist. The project’s contractors will continue to be held accountable for implementation of their respective responsibilities. The contractors will introduce, as part of the AF, an explicit zero tolerance policy toward sexual exploitation and abuse with stringent mitigation measures and in case of incidents, remedial measures including termination of contract for perpetrators and taking legal action according to national laws. The PIU will thereby ensure satisfactory reporting, with serious safeguards incidents to be reported within 24 hours.

85. **In February 2018, the World Bank provided capacity-building trainings on social and environmental safeguards for the PIU, contractors, and supervision consultants.** Similar trainings will be provided in the course of the AF. The World Bank project team will also continue to proactively monitor and take measures in case of emerging safeguard issues, including any impacts from labor influx, child labor, and gender-based violence (GBV).

86. **For both sites, the project has established a functional GRM made up of representatives from PAPs, district (Woreda), and subcity administration, and the PIU.** A dedicated telephone line for the PIU is accessible for PAPs. To facilitate information sharing and complaints handling, three suggestion boxes have also been provided at suitable sites in the subcity administration offices of the respective IP sites. Reported number of cases to date through the GRM have been 23 and 18 for Bole Lemi-II and Kilinto resettlement sites, respectively. Under the AF, the project will further strengthen the GRM established for the parent project for people to report concerns or complaints, if they feel unfairly treated or are affected by any of the subprojects. Citizens can register complaints about the construction of different activities of IPs, resettlement, and any other perceived abuses of the project. The grievance committee at the various levels will continue to address such complaints, including logging, tracking, and resolving grievances promptly during and after the implementation of the project. A social M&E survey will be conducted to evaluate the impact on of the project on vulnerable groups including women. The surveys will use gender-disaggregated data to determine and verify citizen's perceptions of the project's activities and will serve as a tool to define gender or social issues. The recommendations will be used to deepen improvements in the industrial sector.

87. **Gender is an important dimension for the CJC Project, in particular with regard to the inclusion of women as direct project beneficiaries and the resulting impact of changes to the intrahousehold allocation of resources and decision making.** Gender gap in the Ethiopian labor participation persists, with 77 percent participation rate for women, and 87 percent for men. In the most recent Global Gender Gap report 2017 published by the World Economic Forum, out of 144 countries benchmarked, Ethiopia is ranked 109 for economic participation and opportunity, and 95 for wage equality for similar work. IPs can play a significant role in women's economic empowerment because they are a driver of job opportunities for women and often represent the first opportunity for women to enter the formal workforce. Once the IPs become operational, it is likely that the majority of workers will be women ages between 18 and 24 years, particularly for Bole Lemi-II IP which is designated to host manufacturing firms in the garment and textile sector. This provides an opportunity for project-funded IPs to be used to promote women's economic participation and empowerment by increasing and improving formal employment opportunities, providing women with higher income levels than afforded outside IPs, and supporting women's economic independence.

88. **The project will ensure active participation of women in the PIU and the IPDC.** The GoE has a strong commitment to gender equality which is reflected in its constitution, the National Policy on Women, and the National Action Plan for Gender Equality (2006). To align with government's policy, the project will support the recruitment of gender experts for the IPDC and the PIU to follow up on gender mainstreaming including GBV and facilitating active participation of women in the project activities. Technical assistance will be provided for the IPDC to enable them to: (a) monitor the implementation of the Gender Action Plan (GAP) that is to be prepared under the AF; (b) enable active participation of women in the IPs during construction and operation; (c) provide gender training for the contractors, consultants, and implementing institutions including IPDC staff to ensure an understanding of gender-related issues; and (d) collect gender-disaggregated information as part of the project's results tracking and monitoring system. Also, the project will support all implementing agencies, including the IPDC and the EIC, in the

application of the gender budgeting guidelines developed by the MoFEC. The project will proactively facilitate income restoration and employment opportunities for women, particularly those directly affected by the project. The project will support the establishment of a women-friendly environment in the IPs, including child care centers. The project will also provide training for managers and supervisors in the IPs to be more sensitive to women employees concerns and needs.

89. **The project has prepared a draft GAP which will be refined during implementation.** The draft GAP in Annex 3 has identified practical actions that will be undertaken by the IPDC and the PIU to mainstream gender and ensure gender equity. The majority of workers at the IPs are young unmarried women between the ages of 18–25 years. Women face several challenges in the work place including harassment, a lack of safe transportation, lack of child care facilities, inadequate health care facilities and limited opportunities for promotion. Women shall be given special consideration and priority in trainings and job recruitment to ensure their participation and retention. The project will ensure special gender mainstreaming by arranging GBV training for contractors, supervision consultants, workers, and other key stakeholders. Additional activities are planned to raise awareness on the protection of vulnerable people including children and women, with a focus on discrimination and GBV. The GAP will recommend the IPDC to facilitate the provision of safe childcare facilities and safe transportation for workers to and from the IPs.

90. **Gender-specific indicators are included in the RF** to measure: (a) the number of jobs created for women by activities linked to the supported IPs; (b) the number of jobs created for women by local suppliers supported by the linkage fund; and (c) the number of trained women trainees.

91. **Citizen engagement.** The CJC-AF will continue a real and active interaction between citizens and the IPDC and the EIC, as well as other Government agencies. CE includes stakeholder consultation, a multilevel GRM, and beneficiaries' feedbacks on all activities. Particularly, the emphasis will continue to be placed on seeking the views of vulnerable groups, especially women. Two new M&E indicators will be added to better monitor CE.

F. Environment (including Safeguards)

92. **The project continues to be rated as Category A.** Compliance with environmental safeguards is rated Moderately Satisfactory. The ESIAs for each of the project sites have been updated, cleared with the Addis Ababa Environmental Protection Authority, and publicly disclosed. The two contractors for Bole Lemi-II and Kilinto IPs have prepared the Contractors Environmental and Social Management Plan (CESMP) which have been cleared by the PIU. Major environmental concerns including environment, health, and safety issues are being addressed in accordance to the respective CESMP. Each of the project contractors and the supervisor consultant has employed dedicated personnel for environmental safeguard issues. Electricity for both IPs will be sourced from the mains grid power and has no captive power plant. The civil works related to the power supply (cabling, streetlights, distribution units, and so on) are captured in the current safeguards instruments. In addition, the Government has decided to upgrade the WWTP to zero liquid discharge with capacity of 14,000 m^3 per day for Kilinto IP and an

advanced WWTP for Bole Lemi-II with capacity of 21,000 m^3 per day. Construction of WWTP systems and solid waste management plans for both IPs is under implementation based on the technical specifications indicated in the ESIA. Given that most significant environmental and social concerns are associated with the operational phases of the pharmaceutical industries, the World Bank's Environment, Health, and Safety Guideline for pharmaceuticals and biotechnology manufacturing will be applied for environment risk management.

93. **The current ESIA and ESMP instruments cover the full scope of activities under the parent project and the AF, including the civil works contracts for the two IPs.** The environmental safeguards are primarily associated with activities under Component 2 – provision of industrial infrastructure. CJC-AF will not support any new IPs under Component 2.

94. **A climate and disaster risk screening has been completed for the AF.** It found low current and future risk of extreme temperature and extreme precipitation and flooding, low current and moderate future risk of drought, and moderate current risk of earthquakes. The initial screening may be supplemented with a more detailed risk assessment, if required, based on ongoing recommendations from environmental specialists. Given the focus in the AF on promoting good environmental practices, including training on environmental standards certification, environmental risks will be mitigated.

95. **Project design incorporates infrastructure to mitigate to climatic and ecosystemic events**. For example, in Bole Lemi II, waste steam from textile dyeing or washing processes could be used in other industrial processes such as steam softening of leather or wet-thermal heat setting and shaping of shoes. Treated wastewater could be recycled into industrial processes and/or provided to neighboring agricultural areas for irrigation.

96. **Climate Co-benefits.** The WWTPs to be built in the IPs use anaerobic–aerobic processes which lead to significant cost reduction in operating costs, while simultaneously resulting in high organic matter removal efficiency, a smaller amount of aerobic sludge and no pH correction. Considering this information, the project climate change mitigation co-benefits were calculated for the two wastewater treatment plants, using the Climate Change coding methodology. Based on the data processed, a total of 12.1 percent mitigation co-benefits can be assigned to civil works under component II, corresponding to US$52.1 million of total project envelope.

VI. WORLD BANK GRIEVANCE REDRESS

97. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to

the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Change in Project's Development Objectives	✓	
Change in Results Framework	✓	
Change in Components and Cost	✓	
Change in Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Change in Procurement	✓	
Change in Implementing Agency		✓
Cancellations Proposed		✓
Change in Disbursements Arrangements		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in APA Reliance		✓
Other Change(s)		✓

VIII. DETAILED CHANGE(S)

PROJECT DEVELOPMENT OBJECTIVE

Current PDO

The Project Development Objective (PDO) is to contribute to job creation by attracting investments and improving competitiveness ofenterprises in the targeted industrial zones and their linked domestic enterprises.

Proposed New PDO

The Project Development Objective (PDO) is to contribute to job creation by attracting investments and improving competitiveness of enterprises in the targeted industrial parks and their linked domestic enterprises.

RESULTS FRAMEWORK

Project Development Objective Indicators

Indicator One: Number of jobs created by activities linked to the supported IPs
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	46,000.00	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Of which are women (%)
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	64.00	New

Of which jobs created in the firms operating in the supported IPs
Unit of Measure: Number
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	45,000.00	Revised

Of which are women (%)
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	64.00	New

Of which jobs created by local suppliers supported by the linkage fund
Unit of Measure: Number
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	1,000.00	Revised

of which are women (%)
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	38.00	53.00	New

Indicator Two: Total sale value of goods and services linked to the supported industrial parks
Unit of Measure: Amount(USD)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	280,000,000.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

Of which total sale value of goods and services generated by firms located in the supported IPs, of which are

exports
Unit of Measure: Amount(USD)
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	274,000,000.00	Marked for Deletion

Of which total sale value of goods and services delivered to firms in the supported IPs by local suppliers supported by the linkage Fund
Unit of Measure: Amount(USD)
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	4,000,000.00	Marked for Deletion

Direct project beneficiaries
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	1,500.00	32,000.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

Female beneficiaries
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	50.00	60.00	Marked for Deletion

Of which are trained trainers
Unit of Measure: Number
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	50.00	Marked for Deletion

Private investment by firms located within the supported industrial parks
Unit of Measure: Amount(USD)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	28,000,000.00	New
Date	01-May-2018	01-May-2018	30-Jun-2021	

of which is foreign direct investment
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	New

Intermediate Indicators

Indicator 1: Adoption of a IP Law by the Cabinet
Unit of Measure: Yes/No
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Establishment of the IP Regulatory function
Unit of Measure: Yes/No
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action

Value	No	Yes	Yes	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Number of direct contacts with potential investors
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	100.00	85.00	950.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

Total revenues for IPDC earned from the firms located in the supported IPs
Unit of Measure: Amount(USD)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	10,000,000.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

Serviced land in the supported Industrial Parks
Unit of Measure: Hectare(Ha)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	280.00	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Leased land in the supported IPs
Unit of Measure: Hectare(Ha)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	32.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

At least one License issued for IP management, development, operations and/or sub developer

Unit of Measure: Yes/No
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Private investment by firms located within the supported Industrial Parks
Unit of Measure: Amount(USD)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	28,000,000.00	Marked for Deletion
Date	11-Aug-2014	16-Mar-2018	30-Jun-2020	

Of which is foreign direct investment
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Marked for Deletion

Number of local suppliers working with firms located within the supported Industrial Parks
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	7.00	25.00	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Of which are local suppliers supported by the linkage Fund
Unit of Measure: Number
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action

Value	0.00	7.00	20.00	Revised

Number of trained trainers
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	50.00	New
Date	11-Aug-2014	03-May-2018	30-Jun-2021	

Number of trained trainees
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	1,500.00	7,500.00	Revised
Date	11-Aug-2014	16-Mar-2018	30-Jun-2021	

Of which women (%)
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	80.00	70.00	Revised

Total sale value of goods and services linked to the supported industrial parks (annual)
Unit of Measure: Amount(USD)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	100,000,000.00	New
Date	03-May-2018	03-May-2018	30-Jun-2021	

Percentage of grievances satisfactorily resolved within the stipulated timeframe
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	98.00	98.00	80.00	New
Date	03-May-2018	03-May-2018	30-Jun-2021	

Total number of SMEs consulted to get their feedback on project implementation for the matching grant scheme (cumulative)
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	20.00	New
Date	03-May-2018	03-May-2018	30-Jun-2021	

Number of women-owned/led firms obtaining certification to supply to international firms (cumulative)
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	15.00	New
Date	03-May-2018	03-May-2018	30-Jun-2021	

COMPONENTS

Current Component Name	Current Cost (US$, millions)	Action	Proposed Component Name	Proposed Cost (US$, millions)
Component 1: Institutional and Regulatory Framework and Capacity Building	6.10	Revised	Component 1: Institutional and Regulatory Framework and Capacity Building	8.10
Component 2: Support for Industrial Infrastructure	197.20	Revised	Component 2: Support for Industrial Infrastructure	384.20
Component 3: Enhancing IZ linkages to the local economy	17.20	Revised	Component 3: Enhancing IP linkages to the local economy	10.20
Component 4: Project	8.50	Revised	Component 4: Project	12.50

Management and Monitoring and Evaluation			Management and Monitoring and Evaluation	
Contingency	21.00	Revised	Contingency	10.00
TOTAL	**250.00**			**425.00**

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-54510	Effective	30-Jun-2020	30-Jun-2020	07-Jul-2021	07-Nov-2021

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IDA-54510-001 | Currency: XDR				
iLap Category Sequence No: 1	Current Expenditure Category: Gds,Wks,NCS,CS,TRN,Wrk Shps,OPCs			
149,229,387.00	133,122,594.78	156,996,907.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: Matching Grants			
8,405,000.00	0.00	2,585,650.00	100.00	100.00
iLap Category Sequence No: 3	Current Expenditure Category: Refund of preparation Advance			
2,350,000.00	401,830.08	401,830.08		
iLap Category Sequence No: 4	Current Expenditure Category: Gds, NCS, CS, Trng, Wshp & OC-EIC			
1,615,613.00	0.00	1,615,612.92	100.00	100.00

Total	**161,600,000.00**	**136,093,182.30**	**161,600,000.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021
Annual	0.00	12.15	3.20	84.18	150.48	159.52	11.20	4.28
Cumulative	0.00	12.15	15.34	99.52	250.00	409.52	420.72	425.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	Substantial	Substantial
Macroeconomic	Substantial	Substantial
Sector Strategies and Policies	Moderate	Moderate
Technical Design of Project or Program	Moderate	Moderate
Institutional Capacity for Implementation and Sustainability	Substantial	Substantial
Fiduciary	Moderate	Moderate
Environment and Social	Substantial	Substantial
Stakeholders	Substantial	Substantial
Other		
Overall	Substantial	Substantial

LEGAL COVENANTS – Ethiopia Competitiveness and Job Creation Project-Additional Financing (P164429)

Sections and Description
Financing Agreement: Within three (3) months from the Effective Date, the Recipient shall update the Project Implementation Manual.
Financing Agreement: Within four (4) months from the Effective Date, furnish to the Association for comments a draft time-bound plan for (i) periodic reviews of rental price of serviced industrial land offered to tenant companies, pricing of value-added services and utilities, and the prevailing management fee for the two project-

supported IPs; and (ii) to explore options for alternative contractual arrangements under Public-Private Partnerships for the overall management of the IPs and/or specific IP facilities.

Conditions

IX. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Ethiopia
Ethiopia Competitiveness and Job Creation Project-Additional Financing

Project Development Objectives

The Project Development Objective (PDO) is to contribute to job creation by attracting investments and improving competitiveness of enterprises in the targeted industrial parks and their linked domestic enterprises.

Project Development Objective Indicators

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	Name: Indicator One: Number of jobs created by activities linked to the supported IPs		Number	0.00	46,000.00	Yearly	Survey by IPDC and PIU	PIU
New	Of which are women (%)		Percentage	0.00	64.00	Yearly	Survey by IPDC and PIU	PIU
Revised	Of which jobs created in the firms operating in		Number	0.00	45,000.00	Yearly	Survey by IPDC and PIU	PIU

	the supported IPs							
New	Of which are women (%)		Percentage	0.00	64.00	Yearly	Survey by IPDC and PIU	PIU
Revised	Of which jobs created by local suppliers supported by the linkage fund		Number	0.00	1,000.00	Yearly	Survey by IPDC and PIU	PIU
New	of which are women (%)		Percentage	0.00	53.00	Yearly	Survey by IPDC and PIU	PIU

Description: This indicator is the sum of the full-time equivalent jobs created in the firms operating in the supported IPs and by linked domestic enterprises. Full-time jobs are defined as the average yearly number of employees that work for 8 or more hours a day.

New	Name: Private investment by firms located within the supported industrial parks		Amount(USD)	0.00	28,000,000.00	Yearly	Survey by IPDC and PIU	PIU
New	of which is foreign direct investment		Percentage	0.00	70.00	Yearly	Survey by IPDC and PIU	PIU

Description: This indicator is defined as the sum of annual investment in real estate and productive factors (including equipment, human capital, R&D).

Intermediate Results Indicators

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	Name: Indicator 1: Adoption of a IP Law by the Cabinet		Yes/No	No	Yes	Yearly	PIU	PIU
Description:								
Revised	Name: Establishment of the IP Regulatory function		Yes/No	No	Yes	Yearly	PIU	PIU
Description:								
Revised	Name: Serviced land in the supported Industrial Parks		Hectare(Ha)	0.00	280.00	Yearly	PIU	PIU
Description:								
Revised	Name: At least one License issued for IP management, development, operations and/or sub developer		Yes/No	No	Yes	Yearly	PIU	PIU
Description: Yearly								
Revised	Name: Number of local suppliers working with		Number	0.00	25.00	Yearly	PIU	PIU

	firms located within the supported Industrial Parks							
Revised	Of which are local suppliers supported by the linkage Fund		Number	0.00	20.00	Yearly	PIU	PIU
Description:								
New	**Name:** Number of trained trainers		Number	0.00	50.00	Yearly	PIU	PIU
Description:								
Revised	**Name:** Number of trained trainees		Number	0.00	7,500.00	Yearly	PIU	PIU
Revised	Of which women (%)		Percentage	0.00	70.00	Yearly	PIU	PIU
Description:								
New	**Name:** Total sale value of goods and services linked to the supported industrial parks (annual)		Amount(USD)	0.00	100,000,000.00	Yearly	PIU	PIU
Description:								
New	**Name:** Percentage of grievances satisfactorily resolved within the stipulated		Percentage	98.00	80.00	Yearly	PIU	PIU

	timeframe							
Description:								
New	**Name:** Total number of SMEs consulted to get their feedback on project implementation for the matching grant scheme (cumulative)		Number	0.00	20.00	Yearly	PIU	PIU
Description:								
New	**Name:** Number of women-owned/led firms obtaining certification to supply to international firms (cumulative)		Number	0.00	15.00	Yearly	PIU	PIU
Description: Nr of women-owned/led firms receiving technical support under the project that successfully obtain international certification relevant to the area of business to meet compliance requirements of international buyers.								

Target Values

Project Development Objective Indicators

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	End Target
Revised	Indicator One: Number of jobs created by activities linked to the supported IPs	0.00	0.00	0.00	0.00	0.00	0.00	15,500.00	46,000.00	46,000.00
New	Of which are women (%)	0.00	0.00	0.00	0.00	0.00	0.00	64.00	64.00	64.00
Revised	Of which jobs created in the firms operating in the supported IPs	0.00	0.00	0.00	0.00	0.00	0.00	15,000.00	45,000.00	45,000.00
New	Of which are women (%)	0.00	0.00	0.00	0.00	0.00	0.00	64.00	64.00	64.00
Revised	Of which jobs created by local suppliers supported by the linkage fund	0.00	0.00	0.00	0.00	0.00	0.00	500.00	1,000.00	1,000.00
New	of which are women (%)	0.00	0.00	0.00	0.00	0.00	0.00	53.00	53.00	53.00
New	Private investment by firms located within the supported industrial parks	0.00	0.00	0.00	0.00	0.00	10,000,000.00	20,000,000.00	28,000,000.00	28,000,000.00

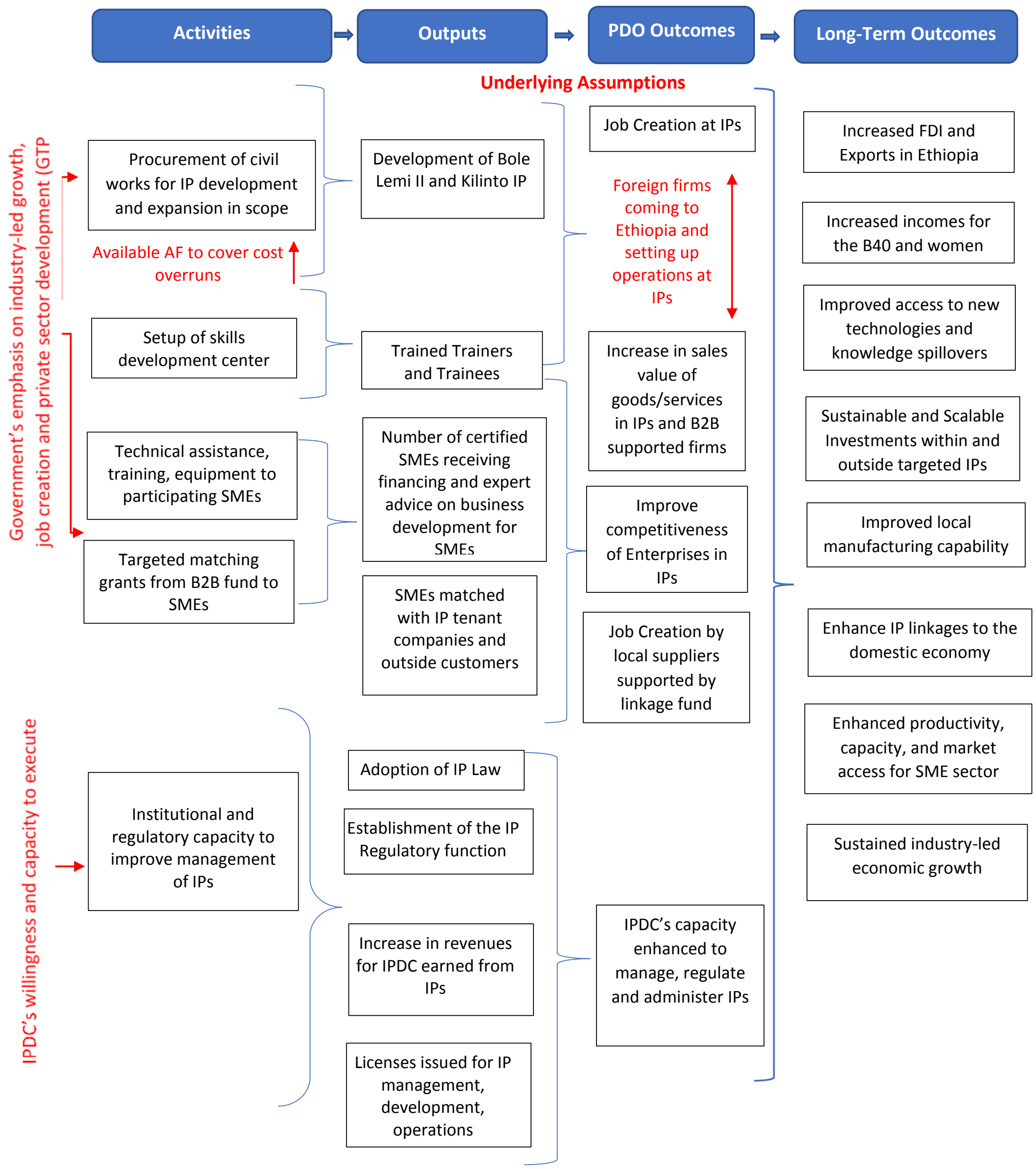
New	of which is foreign direct investment	0.00	0.00	0.00	0.00	0.00	70.00	70.00	70.00	70.00

Intermediate Results Indicators

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	YR7	End Target
Revised	Indicator 1: Adoption of a IP Law by the Cabinet	No	Y	Y	Y	Y	Y	Y	Y	Y
Revised	Establishment of the IP Regulatory function	No	N	Y	Y	Y	Y	Y	Y	Y
Revised	Serviced land in the supported Industrial Parks	0.00	0.00	0.00	0.00	150.00	250.00	280.00	280.00	280.00
Revised	At least one License issued for IP management, development, operations and/or sub developer	No	N	N	N	N	N	N	Y	Y
Revised	Number of local suppliers working with firms located within the supported Industrial Parks	0.00	0.00	0.00	0.00	0.00	5.00	20.00	25.00	25.00
Revised	Of which are local suppliers supported by the linkage Fund	0.00	0.00	0.00	0.00	0.00	0.00	10.00	20.00	20.00

New	Number of trained trainers	0.00	0.00	0.00	0.00	20.00	30.00	40.00	50.00	50.00
Revised	Number of trained trainees	0.00	0.00	0.00	0.00	1,000.00	3,000.00	5,000.00	7,500.00	7,500.00
Revised	Of which women (%)	0.00	0.00	0.00	0.00	70.00	70.00	70.00	70.00	70.00
New	Total sale value of goods and services linked to the supported industrial parks (annual)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100,000,000.00	100,000,000.00
New	Percentage of grievances satisfactorily resolved within the stipulated timeframe	98.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00
New	Total number of SMEs consulted to get their feedback on project implementation for the matching grant scheme (cumulative)	0.00	0.00	0.00	0.00	5.00	10.00	15.00	20.00	20.00
New	Number of women-owned/led firms obtaining certification to supply to international firms (cumulative)	0.00	0.00	0.00	0.00	0.00	0.00	5.00	15.00	15.00

Annex 1. Theory of Change



Annex 2. Changes to the Results Framework

1. **PDO-level indicators have been revised to (a) strengthen alignment with the PDO, (b) add/modify target values for subcomponents not accounted for in the current RF, and (c) correct arithmetic anomalies in the RF of the parent project.** During AF preparation, the team reviewed the RF prepared under the parent project and proposed the following changes:

- **Indicator 1**
    - Target for jobs created by local suppliers supported by the linkage fund adjusted from 1,200 to 1,000 and for jobs created by the firms operated in the supported IPs increased from 30,000 to 45,000. The 50 percent increase is fully explained by the full development at Kilinto envisioned under the AF, which will deliver 178 hectares of leasable space, compared to 49 hectares under the parent project. At 155 employees per hectare, this estimate is consistent with job creation ratios observed in other operational[5] IPs in the country.
    - Targets for supplementary indicators to measure the number of jobs created for women added for the main indicator and sub-indicators. The target for share of women employment created by activities linked to the supported IPs is set at 64 percent. This target is based on a weighted average of: (a) actual employment ratios observed at Bole-Lemi I and Hawassa IPs for the garments and textile industries, and (b) reported employment ratios in the domestic pharmaceutical industry coupled with experience from the industry in comparable countries. The women share of the jobs created by the local suppliers supported by the linkage fund is set at 53 percent, a 15 percent increase from the current female employment of 38 percent.
- **Indicator 2**
    - Target sale value of goods and services: Moved from the PDO level to intermediate level, with target value revised to US$100 million by June 30, 2021, given that the tenant companies in the IPs are only expected to start generating sales by 2020.
    - Targets for supplementary indicators to measure exports share of total sale value of goods and services generated by firms located in the supported IPs and sale value of goods and services generated by local suppliers supported by the linkage fund have been dropped as they may not be attributable to the project and a focus on exports is no longer a focus of the strategy behind the development of Kilinto.
- **Indicator 3.** Replacement of original indicator 'Direct project beneficiaries, of which are trained trainers' with an intermediate indicator from the parent project 'Private investment

[5] For example, Bole Lemi-I hosted 173 employees per hectare two years after it began operations, while the ratio at Hawassa was 163 workers. The target provided for the CJC Project is more conservative as the pharmaceutical industry is less labor-intensive and hence requires less man power per leasable space.

by firms located within supported industrial zones, of which is FDI' to strengthen alignment with the PDO and avoid duplication. This indicator is defined as the sum of annual investment in real estate and productive factors (including equipment, human capital, research and development).

2. **Intermediate indicators have been revised to reflect changes to the design under the parent project and to add new indicators for CE.** Specific changes to intermediate indicators are outlined below:

- **Indicator 3:** Number of direct contact with potential investors—dropped from the RF as it does not measure actual investments or job creation in project-supported IPs.
- **Indicator 4:** Total revenues for the IPDC earned from the firms located in the supported IPs—dropped from the RF as it may vary significantly if land uptake rates slowdown from reasons that are beyond the scope of the project.
- **Indicator 5:** Serviced land in the supported IPs—target revised to reflect the updated scope of the IPs.
- **Indicator 6:** Target for leased land in the supported IZ dropped to avoid duplication with Indicator 5.
- **Indicator 8:** Indicator measuring private investment by firms located within the supported IPs—moved to PDO-level indicators.
- **New indicator added** to measure a number of women owned/led firms obtaining certification to supply to international firms, supported by the project activities.
- **Target for the share of women trained trainees has been revised upwards to 70** percent**.**
- **Two new intermediate indicators** will be included to enhance the M&E activities on CE:
    - Percentage of grievances satisfactorily resolved within the stipulated time frame
    - Total number of SMEs consulted to get their feedback on project implementation for the matching grant scheme
- **Intermediate indicator added** to measure the number of trained trainers (moved from a PDO-level subindicator which is now marked for deletion).

3. **For all indicators, the target date is revised to year-end FY2021, to reflect the new project closing date.** As a result, yearly targets have been revised. The revision of yearly targets also reflects the delays in the start of construction works and the resulting delay in operationalizing the two project-supported IPs.

Annex 3. Gender Action Plan (GAP)

Project Components	Gender-related Activities to be Done	Responsible Body
Component 1: Institutional and regulatory framework and capacity building	• Conduct awareness raising activities for senior officials of IPDC and EIC on gender equality • Strengthen the capacity of gender specialists or gender focal points through trainings • Conduct analytical work to understand constraints to women's retention and promotion and prepare a time-bound action plan to address the identified gaps.	IPDC
Component 2: Support for industrial infrastructure	• Establish gender experts at the PIU and IPDC • Facilitate gender sensitization for contractors, and consultants, and motivate them to recruit women, before commencement of their work. Agree with them on gender issues related to the work process • Provide gender awareness training of women employees on the policies and benefits that they can and should take advantage of • Provide training to supervisors and managers to be aware of challenges and constraints female employees face when IPs become operational • Conduct the assessment for provision of quality and affordable childcare facilities for workers of the IPs and employees of IPDC • Create GRM within the IPs and create workers' center (labor office) to address issues arising through the GRM	IPDC, PIU, contractors, and supervision consultants
Component 3: Enhance IP linkages to the local economy	• Include women owned businesses in technical assistance and capacity building programs to foster linkages with FDI firms.	
Component 4: Project management and monitoring and evaluation	• Disaggregate all relevant indicators by gender, such as number of women having access to capacity building and working in the PIU • Conduct project impact assessment, with a special focus on gender	IPDC, supervision consultants, and contracts

Annex 4. Economic and Financial Analysis

1. **IPs are an important channel to foster development, which has been adopted by many developing countries**. The growth sustained by the technology used in the IPs opens opportunities for creating new jobs, improving local productivity, strengthening linkages to the domestic economy, and maintaining a competitive environment in the respective country (Markusen et al, 1986). In addition, producers operating in the IPs will get greater benefits at lower costs and are likely to benefit from knowledge spillovers which are known to improve productivity in both established and nascent industries. A key focus of the GoEs industrial policy is on the establishment of IPs throughout the country as a means of catalyzing growth in light manufacturing, particularly in the garment, textiles, leather, agroprocessing, and pharmaceutical sectors. The GoE has positioned its locational advantage by highlighting the country's low labor costs, competitive energy costs, abundant land, and preferential market access to the European Union and United States. Indeed, in 2016, Ethiopia received one of the highest FDI inflows in Africa, US$3.2 billion, a 46 percent annual increase.

2. **The economic and financial analyses for the AF were completed in March 2018** to reflect (a) financing gap resulting from the ongoing construction contracts for the two project-supported IPs, (b) changes in two project-supported IPs' spatial configuration and land-use plans; and (c) an increase in acreage and expanded scope of Kilinto IP. The updated analysis for the AF followed the same methodology used in the financial and economic analysis of the parent project, that is (a) the market value of revenues and costs associated with IP construction to obtain the project's internal cash flows and (b) wider project benefits to capture the investment's opportunity cost. The financial and economic analyses were calculated over a 40-year period to make it consistent with the Government's policy directive to price serviced land at both IPs. The analyses take a discount rate of 10 percent which is in line with large-scale infrastructure projects in Ethiopia.

3. **The economic and financial analyses for the AF were completed in April 2018**. The economic analysis considers the main revenue streams to the Government generated by the new project-supported IPs as well as the initiatives aimed at improving links with the domestic economy. It also accounts for the direct economic benefits generated through the IPs and the linkage fund and relative to a 'without-project' scenario. These benefits are then compared with the project's total costs. At a 10 percent discount rate over a 40-year time horizon, which is typical of large-scale zone development projects in Ethiopia, the analysis indicates that the project ERR is 10.7 percent with an NPV of US$17.2 million. The positive economic returns, added to the CJC Project's contribution to the Government's job creation and private sector development objectives, provide a sound rationale for World Bank involvement in the project.

4. **The economic analysis considers the higher costs to be covered with the AF,** especially, (a) losses due to foreign exchange rate fluctuation between SDR and U.S. dollar during the loan period; (b) the upgrade of a WWTP to advance conventional and zero liquid discharge plants for Bole Lemi-II and Kilinto IPs; (c) an increase in project scope at Kilinto whereby the World Bank will finance Phases 1 and 2, bringing the total area of serviced land available for leasing from 46 ha to 178 ha; and (d) the acceleration premium resulting from a two-year construction time line, which will make serviced plots available for prospective company tenants earlier in time, therefore bringing in investment, job creation, and revenue earned from the firms located in the supported IPs earlier.

Demand Analysis

5. **Market assessment.** The economic analysis drew on an updated market assessment completed in 2016, which determined the ideal combination of infrastructure and services to attract private investment across different sectors that would be interested in setting up operations in the IPs. The market assessment also helped design demand-driven master plans for each IP. The survey[6] that informed the demand analysis drew on information of industrial and commercial infrastructure and facilities, major utility, business support services, manpower, logistics and other top considerations. The following were the main factors to assess the land uptake rate at both project-supported IPs:

(a) Expected years to locate and become operational at the IPs

(b) Average demand for land per sector and company

(c) Forecast of industrial population demanding IPs

(d) Outlook and preferences over each IP

(e) Lease rates at both IPs

(f) Business extent in case of locating in an IP

(g) Number of investors and business plans already received and processed by the IPDC

6. **Locational demand factors.** Locational demand factors are the most important drivers for deciding on whether to locate in an IP or a different industrial site. The survey results indicate that 60 percent of respondents prioritized rental rates, 50 percent of them assessed possibility of growth within the area as second priority, and 44 percent ranked clustering with similar industries as the third. However, transportation access and residential, education, and recreational facilities are also ranked highly according to the survey.

7. **Land uptake rates**. The survey was combined with current IPDC data on actual operational firms in Hawassa IPs and Bole Lemi I as well as business plans from different potential investors in the four sectors that have been submitted requests to the IPDC for leasing in the industrial land. The survey found that sectoral demand for space varies across in each IPs: Bole Lemi II would see land fully occupied within 3 years after the IP is completed, while in Kilinto it would take about five years for firms to become fully operational (table 4.1).

[6] The sectoral industry analysis included a survey with 255 firms of key industry sectors that represent existing and potential investors. The sectors included mostly medium and large garment, leather, textiles, food and beverage, pharmaceuticals, electric/electronics, and furniture and fixtures. The results of the survey were combined with industry statistics from the Central Statistics Agency to provide a good approximation of sectoral allocation and land uptake information at the initial stage of IP development.

Table 4.1. Land Uptake Rates by Sector and Project Supported IP (%)

Sector	Expected to become fully operational		
	Within 1 year (%)	Within 3 years (%)	After 5 years (%)
Kilinto			
Pharmaceutics	25	50	100
Bole Lemi II			
Garments	21	42	42
Textiles	24	43	43
Leather	12	14	14
Total	**57**	**100**	**100**

Source: IPDC. Market Assessment 2016.

8. **Acceleration in uptake rates as a response to earlier than expected inauguration of IPs.** The updated economic analysis assumes that the occupation of project-supported IPs will occur two years before originally planned owing to the increase in the pace of disbursements expected after approval of the AF. Similarly, the analysis acknowledges that the planned upgrade WWTP will have a modest but positive impact on land uptake rates in project-supported IPs, as this will bring in anchor tenants who usually see this as a requirement for launching operations in a given IP.

9. **Sectoral projection methodology.** To project demand from different sectors in regards to manpower required and office space, data from the market survey were combined with:

- Corporate population for each industry;
- Time series analysis and third-year land uptake rate survey;
- Economic growth and an annual increase in demand;
- Number of investors needed for each industry; and
- FDI influence for each sector.

10. **Preferred type of land use.** The survey that was carried out found that the sectors that will be setting up operations in the IPs prefer serviced land because of their need to construct customized buildings that comply with special production standards and certification requirements. As follows, the updated economic analysis assumes that all the leased land is serviced and that any investments in the plot of land are responsibility of individual investors.

11. **IP spatial configuration.** The financial appraisal is based on an updated IP configuration consisting of (a) full development of Bole Lemi-II IP and on-site infrastructure and common buildings covering up to 107 ha of leasable space, which is similar to the estimate at appraisal of the parent project; (b) full development of on-site infrastructure for Kilinto resulting in leasable space of 178 ha out of 308 ha, compared to 49 ha, which was originally going to be financed by the parent project as Phase 1 of the IP;

and (c) a focus on leasing out serviced land for companies to build their own factory sheds to reduce development costs and encourage private participation.[7]

12. **Land use in project-supported IPs.** The updated economic and financial analysis takes into account revealed sectoral demand for leasable space at IPs as follows: Bole Lemi-II, garment (42 percent), textile (43 percent), and leather (14 percent). In Kilinto, it is expected that all leasable land will be occupied by the pharmaceuticals/life sciences sector, as part of the GoE's initiative to capitalize on the locational advantages to secure FDI from anchor investors who could spur growth in the industry in Ethiopia.

Financial Revenues and Costs from IPs

13. **The financial analysis for the AF considers project cash inflows and outflows stemming from the development and management of the project's supported IPs**. The factors driving revenues for IP operators are demand from different sectors that will occupy the project-supported IPs and rent prices for serviced land. Similarly, the financial analysis assumes a fixed service charge of 2 percent of capital costs for maintenance and services during the construction period, as well as a fixed service charge for operations and maintenance of 8 percent of the lease throughout the 40 years. The main costs include on-site infrastructure costs together with maintenance and management costs associated with the IPs. In this analysis, all off-site infrastructure is excluded as it will be completely financed by the Government.

14. **Capital costs.** Total capital expenditure (CAPEX) for Kilinto and Bole Lemi is expected to be US$137.1 million and US$216.6 million, respectively.[8] The increase in CAPEX and updated IP configuration is presented in table 4.2 and compared to cost and spatial parameters used to appraise the parent project:

Table 4.2. Changes in CAPEX and IP Configuration from Project Appraisal (2014) for Bole Lemi-II and Kilinto

	Bole Lemi-II		Kilinto	
	At Appraisal 2014	Current	At Appraisal (2014)	Current
CAPEX (US$, millions)				
Off-site infrastructure	21.2	n.a.	64.8	n.a.
On-site infrastructure	43.8	120.3	1.1	196.8
Construction of factory sheds	61.3	4.2	n.a.	n.a.
IP Configuration				
Area (ha)	178	178	75 (Phase 1)	308
Leasable land (ha)	108	108	49	178
Serviced land (%)	75	99.5	95	100
Factory sheds + serviced land (%)	25	1.5	5	n.a.
Rental rates for serviced land (US$/sqm/year)	6	3.31	6	3.59

[7] For Bole Lemi-II, an area of 16,500 m^2 (or 1.5 percent of total leasable land) will be leased out with the factory sheds constructed by the developer.
[8] CAPEX includes on-site infrastructure, public facilities and buildings, and general management costs but excludes VAT and contingencies.

15. **Results from the financial analysis.** Based on the updated assessment, the results from the financial analysis indicate that for Bole Lemi-II, the IRR will be 4.2 percent with a negative financial NPV of US$49.9 million, while the financial IRR for Kilinto will be 3.5 percent with a negative NPV of US$77.1 million. The negative financial NPV arises from rental prices for serviced land in both IPs that have been set by the Government at cost recovery rates taking a 40-year horizon in accordance to loan repayment conditions set out by the Bank [9].

Economic Analysis

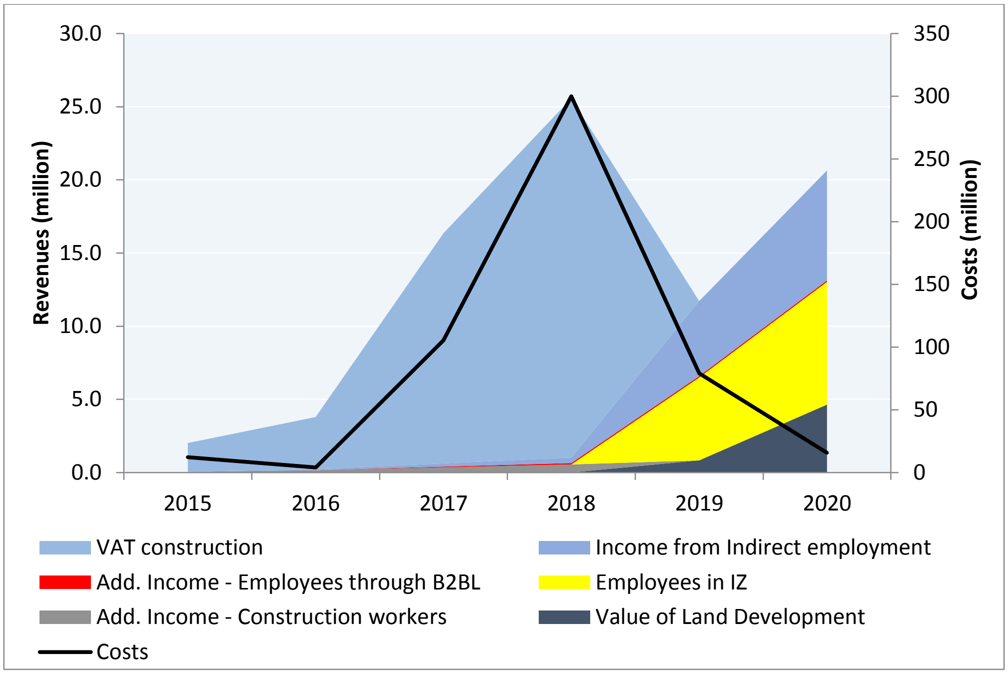
16. **Economic benefits from IPs.** The economic benefits from public investment in IPs include (a) value addition from land development and servicing in the two parks based on an updated simulation of land value appreciation; (b) additional income from direct, short-term, and long-term employment created in firms located in the IPs as well as new jobs created through the B2B linkage fund; (c) additional income from indirect and induced employment; and (d) VAT from construction materials to the Government. Other indirect and second order benefits such as technological and knowledge spillovers resulting from clustering around IPs, improved quality and lower prices for domestically produced pharmaceutical goods improved health outcomes from the development of the industry in Ethiopia, while feasible, are excluded from the economic analysis given the difficulty in calculating them.

17. **Expected job creation.** The analysis suggests that both direct and indirect jobs will be created once the IPs are fully operational. Direct jobs in construction are estimates at a ratio of 10 jobs for every US$1 million investment in the IPs. Wages from new employment depend on (a) the number of jobs created by the IPs and (b) the wage differential between new jobs and jobs outside the IPs. For Bole Lemi-II, it is assumed that firms in the IPs will employ mainly unskilled workers coming from the lowest income quintile of the population. For Kilinto, a different skill set composition is assumed given the shift in IP orientation toward the pharmaceutical industry, which results in higher average wages. Similarly, for both IPs it is assumed that new jobs are filled by workers who would otherwise be underemployed and earning wages of approximately 25 percent less in the 'without-project' scenario, which is explained by higher competition over workers in the IPs. Finally, job creation from the linkage fund (Component 3) is factored in, which translate into about 1,000 new jobs per firm out of 20 firms supported by the linkage fund.

18. **Results.** The economic analysis indicates that the project ERR is 10.7 percent with an NPV of US$17.2 million. The positive economic returns, added to the Government's job creation and private sector development objectives, provide a sound rationale for World Bank's involvement.

[9] Rental rate for serviced land (without factory sheds) was set at US$3.31 and US$3.59 per m^2 per year at Bole Lemi-II and Kilinto, respectively.

Figure 4.1. Revenues and Disbursement Profile of the CJC Project



Source: World Bank Team's calculation with inputs from the IPDC.

19. **Greenhouse gas emissions have been modelled in the economic analysis**. The net emissions for the wastewater collection and treatment activities are expected to be -175,773 tCO2-eq over the 20-year economic life of the two WWTPs, demonstrating net emissions reduction. The inclusion of the CO2 emission costs in the economic evaluation increasing the ERR, from 10.7 percent to 10.9 percent compared to the baseline scenario, with high shadow price of carbon.

20. **Counterfactual scenario.** A 'without-AF' counterfactual scenario was considered, whereby (a) Kilinto is scaled down to 68 ha of serviced land available for lease, which is what would have been affordable in the absence of the AF and considering the lowest bids for both parks,[10] and (b) the Government develops the IPs without the World Bank's financial support in a longer execution period. In this scenario, the benefits that would have been obtained owing to the AF are visibly reduced. For example, income from direct, indirect, and induced employment would be 75 percent lower than in the base scenario, while value additionality from land development in supported IPs would be 135 percent lower. In the counterfactual scenario, the ERR drops to 7.5 percent with an NPV of US$69.3 million.

[10] The counterfactual scenario assumes only the development of on-site infrastructure in both IPs and no off-site infrastructure. Similarly, factory sheds at Bole Lemi-II cover 1.5 percent of serviced land as opposed to 25 percent as envisioned by the parent project.

Annex 5. Procurement Assessment

Applicable Procurement Regulations

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

2. **The regulations are designed to support a modern, fit-for-purpose procurement framework.** The regulations detail many options to tailor individual procurement processes to meet the operational needs under the project and to deliver the right result. The AF shall mainly cover the financing gap of already existing contracts of the construction of Bole Lemi-II and Kilinto IPs. The AF shall also finance consultancy services and the procurement of goods. The consultancy services under the AF shall include services related to assessment of potential PPPs for IP management and operations of Pharmaceutical Park, study of IP-linked housing infrastructure, TA for EIC IP regulation, TA for operation and management of WWTPs, and the PIU staff for the extended period of the AF. The procurement arrangements under the project are made in accordance with the provisions of the regulations to ensure that the correct procurement approach is used to deliver the right results. By designing the right procurement approach, there is far more likelihood of the right bidders participating, better bids being received, and an overall increased chance of achieving value for money.

3. **The regulations are guided by the core procurement principles of value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness.** The regulations support these core procurement principles by providing many choices for the borrower to design the right approach to market.

4. **Standard Procurement Documents issued by the World Bank to be used by borrowers for IPF-financed projects** which include the General Procurement Notice, Specific Procurement Notice, Request for Expression of Interest, Request for Proposals, and Request for Bids documents, will be used for works, goods, consulting, and non-consulting services to be procured through international open competitive bids and for consultancy contracts. In addition, the implementing agencies will use Standard Bid Evaluation Forms for procurement of goods, works, and non-consulting contracts, and the Sample Form of Evaluation Report for selection of consultants.

National Procurement Procedures

5. **When approaching the national market, as shall be agreed in the PP, the country's own procurement procedures may be used.** The World Bank has reviewed the Standard Procurement Documents issued by the Federal Public Procurement and Property Administration Agency of the Federal Democratic Republic of Ethiopia for procurement of goods and works and has found them acceptable in terms of consistency with the World Bank's procurement principles. Hence, national open competitive bids shall follow the procedure set forth in the Ethiopian Federal Government and Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by

the MoFEC dated June 10, 2010, provided that such procedure shall be subject to the following requirements as provided in section 5 paragraph 5.4 of the Procurement Regulations for IPF Borrowers (July 1, 2016):

(a) Open advertising of the procurement opportunity at the national level.

(b) Procurement is open to eligible firms from any country.

(c) The Request for Bids/Request for Proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anticorruption Guidelines, including without limitation, the World Bank's right to sanction and the World Bank's inspection and audit rights.

(d) Contracts with an appropriate allocation of responsibilities, risks, and liabilities.

(e) Publication of contract award information.

(f) Rights for the World Bank to review procurement documentation and activities.

(g) An effective complaints handling mechanism.

(h) Maintenance of records of the procurement process.

6. **Other national procurement arrangements (other than national open competitive procurement)** that may be applied by the borrower (such as limited/restricted competitive bidding, request for quotation/shopping/local bidding, direct contracting) shall be consistent with the World Bank's core procurement principles and ensure that the World Bank's Anticorruption Guidelines and Sanctions Framework and contractual remedies set out in its Legal Agreement apply.

Procurement Oversight and Monitoring Arrangements

7. Mandatory thresholds for prior review for the proposed project based on procurement risk levels of the project are provided in Table 5 in the Project Paper. Based on the risk level of the project, procurement above the applicable thresholds as provided in the table shall be subject to prior review and shall be included in the PP. Such procurement activities shall use the World Bank's Standard Procurement Documents. For contracts to be awarded using Direct Selection, the borrower shall submit to IDA, for its review and 'no objection', a sufficiently detailed justification, before inviting the firm to negotiations. The World Bank staff or World Bank-appointed consultants shall review post review contracts once a year and during implementation support missions. Based on the initial risk rating, the PIU at IPDC shall seek the World Bank's prior review for equivalent value of contracts as detailed in Table 5 in the Project Paper.

Assessment of the Agencies' Capacity to Implement Procurement

8. A procurement capacity assessment of the PIU in the IPDC was carried out as part of the preparation of the proposed AF. Main risks identified include the following: (a) given that the IPDC is a state-owned enterprise, the procurement legal framework does not encompass its procurement activities, (b) unavailability of the Tender Endorsing Committee and a streamlined procurement decision-making process, (c) inadequate procurement record-keeping practice at the PIU, (d) procurement staff turnover, and (e) delays in procurement processing. For the identified risks, the main recommendations are the following: (a) prepare a Procurement Manual that will be agreed with the World Bank, (b) establish clear decision-making structure defined in the Procurement Manual, (c) improve procurement record keeping practices at the PIU, and (d) improve staff compensation and working environment to mitigate the staff turnover problem.

9. In addition, the main risks identified at the ongoing Bole Lemi-II and Kilinto IPs works contracts include (a) repeated design alterations that lead to additional cost to the contract, (b) inefficient design approval process contributing to delays in the construction contract, (c) lack of proper material supply schedule as part of the overall contractors work schedule supported with realistic procurement and manufacturing schedule, and (d) limitations in anticipating contractual delay factors and addressing issues on time. To address the identified risks, it is recommended to revise the key performance indicators to include the identified risks and monitor closely so that issues are identified and resolved early.

10. **In general, there is a gap in the availability of resources and track records to undertake successful procurement processing, bids/proposal evaluations, supplier selections, contract awards, and record keeping.** Efforts to recruit procurement-proficient personnel and enhance the capacity of these staff need to be strengthened. Challenges in the areas of record keeping need to be improved through the provision of space and facilities and through capacity building for the establishment of a proper record keeping system. It should be noted that there is a pool of experience on which to improve upon to build the necessary capacity for an improved procurement system in the implementing agency to enhance the objectives of efficiency and value for money with integrity of the procurement functions under the project.

11. **Key issues and associated mitigation measures have been discussed and agreed with the borrower as follows**:

Table 5.1. Action Plan to Mitigate Procurement Capacity Risks: Summary of Findings and Actions (Risk Mitigation Matrix)

Sl. No.	Issue/Risk	Severity and Impact on Project	Mitigation Measures	Responsibility and Time Frame (All actions to be taken within the first three months of the AF approval)
1	The federal procurement legal framework does not encompass IPDC's procurement activities	High	Develop a Procurement Manual on the basis of a legal framework	PIU/IPDC
2	Lack of procurement proficient staff in the PIU and staff turnover	High	Recruit procurement-proficient staff; Induction of regular procurement capacity enhancement on World Bank procurement procedures and documents; Provide reasonable remuneration and an attractive working environment to staff	PIU/IPDC
3	Unavailability of Tender Endorsing Committee and streamlined procurement decision-making process	High	Establish a procurement oversight body at the IPDC to provide an oversight over the procurement activities of the CJC Project/AF	IPDC
4	Inadequate record management system	Substantial	Keep records in safe and secured place without exposure to unauthorized personnel; Establish record retrieving system	PIU/IPDC

12. **Procurement Plan.** The borrower has prepared the PPSD which shall form the basis for a PP for the first 18 months of the project life and which also provides the basis for the procurement methods. This plan is agreed between the borrower and the project team and will be available at the PIU in the IPDC. It will also be available in the project's database and on the World Bank's external website. The PP will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement Arrangement and Value for Money

13. The intervention through the AF is aimed at covering the financing gap of the mother project and also to strengthen the social safeguards intervention activities of the CJC Project. Hence, a substantial proportion of the proposed AF is meant to cover the financing gap of the contracts for the construction of Bole Lemi-II and Kilinto IPs which are already awarded under the mother project and are under way. Hence, the procurement arrangement and value for money is by and large determined during the

implementation of the contracts under the mother contract. Thus, the procurement objective under the AF is aimed at the timely completion of the contract without delay to ensure the outcome of the project and to avoid possible cost overrun. This must be addressed through a regular monitoring of the contracts and institution of a proper contract management system.

14. There are other procurement of goods and consulting services which shall be financed under the AF which are low-value contracts for which the procurement arrangement is provided in the PPSD and the risks for such contracts is determined to be low. Hence, appropriate selection methods are determined in the PPSD to ensure that value for money is obtained in the procurement process of such consultancy services.

Procurement Risk Analysis

15. A substantial proportion of the AF is to be allocated to cover the financing gap of two contracts for the construction of the Bole Lemi II IP and Kilinto IP. The contract for the two IPs is awarded to two contractors based on a stage international selection process in a market which is considered an established and competitive market in which there reasonably adequate market players. However, the market for high value construction works is by and large dominated by contractors from a single country though there are a very few entrants in the market depending on prevailing circumstances. In general, the award for the two IPs under the parent project is considered to have been carried out in an established and competitive international market. The current AF does not have any impact on the existing contract save for covering the financing gap which was created at the initial stage of the mother project.

16. A very limited proportion of the proposed AF is allocated for the procurement of goods and consulting services. The procurement of goods involves procurement of goods such as grain mills, live animals, office equipment and furniture. These are low value contracts which can be acquired by approaching the national market. There are established markets and adequate number of market players are available for all the goods planned to be procured under the AF. However, most of the goods to be procured under the AF are imported items. Foreign exchange crunch which is being experienced in the country might entail a significant delay in the acquisition of the materials. However, under normal circumstances these materials could be readily available by approaching the national market.

17. Another limited proportion of the AF which is close to US$2 million is planned to be utilized for the selection and employment of consulting firms. The consultancy services to be financed under the AF are low value contracts for the selection and employment of individual consultants as well as limited number of firms which are in familiar competency areas. Thus, again for most consultancy assignments there is an established and competitive national and international market from where such consulting firms and individual consultants can be selected and employed. Hence the market risk in this area can also be considered very low. Overall the market analysis in the PPSD has clearly indicated that there are established competitive markets locally and internationally for the goods and consulting services to be financed under the project. Hence the market risk for goods and services to be acquired through the AF is considered to be very low.

18. Measures shall be put in place to mitigate the risks associated with the procurement of works and services as provided in table 5.2.

Table 5.2. Procurement Risk and Mitigation Measures

Risk Description	A Likelihood Rating	B Impact Rating	C Duration Rating	Overall Risk Rating (A × B × C)	Description of Proposed Mitigation Measures
Delays in the construction works and cost overrun	H	H	H	H	The PIU/IPDC shall establish an appropriate contract administration mechanism to monitor construction works and take timely action,
Unavailability of qualified procurement and contract management staff	H	H	H	H	Attractive compensation and quality training to hired procurement and contract management staff
Foreign exchange shortage	M	M	M	M	Negotiate with MoFEC for CJC Project to be given priority
Lack of experience in World Bank procurement procedures	M	M	M	M	Offer quality training on the World Bank's procurement procedures to project staff

Procurement Arrangements

19. The procurement arrangements for the substantial risk contracts are determined and the contract is already awarded under the mother project. The Procurement Plan for the project shall be agreed with the client and shall be provided in the PPSD.

Annex 6. Change in Construction Costs for Bole Lemi-II IP

Bole Lemi-II	CJC Project Costs in Parent Project (2013) US$, millions	Actual Contract Amounts (As of December 2017, based on lowest cost bidders bill items; US$ millions)
Off-site Infrastructure [a]		
Roads and pavements	4.00	n.a.
Water supply	6.10	
Sewerage and drainage	2.10	
Power supply	1.80	
General management cost	2.10	
Engineering costs	0.90	
Total construction and engineering costs	*17.06*	
Contingency	1.70	
VAT	2.80	
Total off-site infrastructure	**21.60**	
On-site Infrastructure		
Earthworks	13.80	*21.04*
Road and pavement	6.06	*11.96*
Water supply	1.60	*15.00*
Storm water drainage	6.25	*5.86*
Sewerage drainage	1.50	*1.53*
Power supply	0.16	*11.90*
Telecommunication	0.07	*0.71*
Landscape	0.25	*5.00*
Waste water treatment plant		*24.93[b]*
Miscellany cost	1.60	*2.60*
Solid waste management	—	*0.32*
Security system		*0.49*
Architectural design, building, general Management, and engineering costs	*11.10*	*18.99*
Total construction and engineering costs	*42.20*	*120.30*
Contingency	4.20	*12.46*
VAT	7.00	*20.56*
Total on-site infrastructure	**53.80**	***153.40***
Factory Sheds[c]		
Construction of factory sheds	**61.30**	**4.20**
Grand Total	**136.70**	**157.60**

Note: a. In 2013, when the project was designed, it was envisaged to provide predominantly off-site infrastructure leading to the park; however, when the project was designed and contracts awarded, it was decided that the project would finance only on-site infrastructure.
b. Capacity of waste water treatment plan was increased significantly to 21,000 per day.
c. The parent project was to build 17 sheds—10 of 11,000 m^3 and 7 of 5,500 m^3 representing 25 percent of serviced land. Due to limited funding, this was significantly reduced to only 2.

Annex 7. Change in Construction Costs for Kilinto IP

Kilinto	Total Cost Needed to Develop 308 ha, US$, millions (2014)[a]	Project Support (US$, millions) (2014)	Lowest Bid Price for Kilinto IP (December 2017)
Off-site Infrastructure			
Road and pavement	20.60	20.60	n.a.
Water supply	13.40	13.40	
Sewerage drainage	4.50	4.50	
Power supply	9.00	9.00	
General management costs	7.10	7.10	
Engineering costs	3.50	3.50	
Total construction and engineering costs	*57.90*	*57.90*	
Contingency	5.70	5.70	
VAT	9.50	9.50	
Total off-site infrastructure	**73.30**	**73.30**	
On-site Infrastructure			
Earthworks	33.30		25.24
Road and pavement	11.00		14.43
Water supply	4.00		11.14
Storm water drainage	10.80		17.77
Sewerage drainage	2.70		6.38
Structure			3.97[b]
Power supply	0.20		70.50
Telecommunication	0.26		5.74
Landscape, guard house, and fencing	1.60		3.84
Waste water treatment plant	n.a.		26.34
Solid waste management plan	n.a.		1.30
Miscellaneous	4.00		1.62
Architectural design, building, general management, and engineering costs	20.10		8.70
Total construction and engineering costs	*88.09*	*1.14*	*196.98*
Contingency cost	8.80		19.70
15% VAT	14.50		32.50
Total on-site infrastructure	**111.40**	**1.14**	
Grand Total	**184.70**	**74.40**	**249.18**

Note: a. These costs estimates include general management costs, engineering costs, contingencies, and VAT.
b. No factory sheds were planned in Kilinto. The cost estimates are for a logistics shed.