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Report No: PAD5094

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 150.4 MILLION
(US\$200 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE

ETHIOPIA EDUCATION AND SKILLS FOR EMPLOYABILITY PROJECT

September 11, 2023

Education Global Practice
Eastern And Southern Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2023)

Currency Unit = Ethiopian Birr (ETB)

ETB 55.25383890 = US\$1

US\$ 0.01809829 = ETB 1

FISCAL YEAR

July 8 – July 7

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ABBREVIATIONS AND ACRONYMS

AWP&B	Annual Work Plan and Budget
BoF	Bureau of Finance
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
DFIL	Disbursement and Financial Information Letter
DU	Delivery Unit
EASTRIP	East Africa Skills for Transformation and Regional Integration Project
EDI	Entrepreneurship Development Institute
EPI	Eligible Participating Institution
ESF	Environment and Social Framework
ESHS	Environmental, Social Health and Safety
ESMF	Environment and Social Management Framework
ESMP	Environment and Social Management Plan
ESRR	Environment and Social Risk Rating
GBV	Gender Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoE	Government of Ethiopia
GRS	Grievance Redress System
FM	Financial Management
HCI	Human Capital Index
IAB	Industry Advisory Board
IBEX	Integrated Budget and Expenditure System
ICT	Information and Communication Technology
IDP	Internally Displaced Person
IFMIS	Integrated Financial Management Information System
IPF	Investment Project Financing
IRR	Internal Rate of Return
IUFR	Interim Unaudited Financial Report
M&E	Monitoring and Evaluation
MoLS	Ministry of Labor and Skills
NEET	Not in Employment, Education or Training
NGO	Non-Governmental Organization
NPV	Net Present Value
OFAG	Office of Federal Auditor General
OS	Occupational Standard
PBF	Performance-Based Funding
PDO	Project Development Objective
PIM	Project Implementation Manual
PIT	Project Implementation Team
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee

PTC	Polytechnic College
PWD	Person with Disability
SEA	Sexual Exploitation and Abuse
SH	Sexual Harassment
SIP	Strategic Investment Plan
SMIS	Skills Management Information System
SSC	Sector Skills Council
STEP	Systematic Tracking of Exchanges in Procurement
TVET	Technical and Vocational Education and Training
UPSNJP	Urban Productive Safety Net and Jobs Project
WASH	Water, Sanitation and Hygiene
WEDP	Women Entrepreneurship Development Project



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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Ethiopia	Ethiopia Education and Skills for Employability Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P177881	Investment Project Financing	Moderate

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
29-Sep-2023	31-Dec-2028

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The Project Development Objective is to improve employment outcomes of the TVET system of Ethiopia with a focus on women and marginalized groups.



Components

Component Name	Cost (US\$, millions)
Component 1: Strengthening public polytechnics for improved labor market outcomes	110.00
Component 2: Skills for Jobs	80.00
Component 3: System Strengthening	10.00

Organizations

Borrower: Federal Democratic Republic of Ethiopia

Implementing Agency: Ministry of Labor and Skills

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	200.00
Total Financing	200.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	200.00
IDA Credit	200.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Ethiopia	200.00	0.00	0.00	0.00	200.00
National Performance-Based Allocations (PBA)	200.00	0.00	0.00	0.00	200.00



Total	200.00	0.00	0.00	0.00	0.00	200.00
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Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	15.00	27.00	40.00	43.00	40.45	34.55
Cumulative	15.00	42.00	82.00	125.00	165.45	200.00

INSTITUTIONAL DATA

Practice Area (Lead)

Education

Contributing Practice Areas

Social Protection & Jobs

Climate Change and Disaster Screening

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

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial



COMPLIANCE

Policy

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

Yes No

Does the project require any waivers of Bank policies?

Yes No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description



Schedule 2: Section IA.1: The Recipient shall establish, not later than sixty (60) days after the Effective Date, a Project Steering Committee (“PSC”) at the Federal level, and thereafter maintain such PSC at all times during the implementation of the Project, with composition, mandate, resources and functions satisfactory to the Association.

Sections and Description

Schedule 2: Section IA.2(b)(i): The Recipient, through the MoLS, shall establish, not later than one hundred and twenty (120) days after the Effective Date, a Delivery Unit within MoLS, and thereafter maintain such Delivery Unit at all times during the implementation of the Project.

Sections and Description

Schedule 2: Section IA.2(b)(ii): The Recipient, through the MoLS, establish, not later than one hundred and twenty (120) days after the Effective Date, a Project Implementation Team (“PIT”) within each Participating PTC, and thereafter maintain such PIT at all times during the implementation of the Project.

Conditions

Type	Financing source	Description
Disbursement	IBRD/IDA	Schedule 2, Section IIIB1(b) of the Financing Agreement: No withdrawal under Category (1), unless and until the Recipient has prepared and adopted a Project Implementation Manual for Parts 1 and 3 of the Project in accordance with the provisions of Section I.B.1 of Schedule 2 of the Financing Agreement
Effectiveness	IBRD/IDA	Article IV 4.01. the Recipient has prepared, consulted, approved and disclosed an Environmental and Social Management Framework with respective annexes including labor management procedures; a social assessment with annexes including sexual exploitation and abuse/sexual harassment prevention and response action plan; and a security risk assessment and management plan; all in accordance with the provisions of the Environmental and Social Commitment Plan.
Disbursement	IBRD/IDA	Schedule 2, Section IIIB1(c) of the Financing Agreement: No withdrawal under Category (2) unless and until the Recipient has prepared and adopted the PBP Manual in accordance with the provisions of Section I.B.3 of Schedule 2 of the Financing Agreement.



I. STRATEGIC CONTEXT

A. Country Context

- Ethiopia, one of the fastest growing economies in Africa, aims to reach lower-middle-income status by 2025.** Although still one of the poorest countries in the world, with a per capita gross national income of US\$1,020, Ethiopia has made significant strides in poverty reduction, with the national poverty rate decreasing from 30.8 percent to 25.1 percent between 2009/10 and 2018/19.¹ However, growth has since slowed to 6.4 percent in 2021/22 which could also arrest recent progress in poverty reduction.
- The progress made in growth and poverty reduction is at risk due to multiple shocks, including the impact of internal, regional and global conflicts, frequent natural disasters, and the COVID-19 pandemic.** Ethiopia is emerging from one of the most devastating periods of internal conflict in the recent history of the country. The conflict that began in November 2020 led to a significant loss of life, left 9.4 million people in dire need of humanitarian assistance, and triggered an ongoing displacement crisis with an estimated 4.39 million internally displaced persons (IDP).² The magnitude of estimated household income losses in conflict-affected woredas suggests that the conflict could have pushed as many as 3 million people into poverty. Although a peace agreement was reached between the Government of Ethiopia (GoE) and the regional party of Tigray on November 2, 2022, continued scattered conflict within some regions of the country continues to displace populations and disrupt economic activity and delivery of basic services. In addition, instability in the region, specifically the ongoing conflict in Sudan has led to an influx of refugees putting additional pressure on the country. At the same time, the impact of global challenges on food, fuel, and fertilizer prices is reducing the fiscal space for investments in basic services. These multiple shocks have not only acted as an exogenous shock on the economy, disrupting the overall economic activity across the country and accentuating existing macroeconomic imbalances but is also impacting the ability of the Government to invest in human capital formation which would have long-term impact on the country's growth and poverty reduction prospects.
- Weak capacity to adapt to frequent climate shocks is also contributing to increased vulnerability to income losses, unemployment, and food security, and can exacerbate existing inequalities in the country, particularly impacting rural areas.** The country is at high risk of natural disasters such as flooding and drought, and the high levels of poverty and dependence on key sectors that are highly affected by climate change (such as agriculture, water, tourism, and forestry) further exacerbate this vulnerability.³ In 2022, almost 12 million people were in need of food assistance as a result of droughts from five consecutive failed rainy seasons.⁴ In the same year, floods displaced more than half a million Ethiopians and destroyed over 110 schools.⁵ The climate crisis is expected to reduce Ethiopia's GDP by 10 percent by 2045.⁶ It is important to build resilience to frequent climate shocks through diversifying job sources and skills for adaptation and climate change mitigation.
- The COVID-19 crisis has highlighted the extent of the country's vulnerability, particularly among poor and urban populations.** Employment rates plunged in the early days of the pandemic, particularly in urban areas, with changes noted more prominently in female-headed households. Estimates suggest that the rate of poverty has increased by 33.2

¹ World Bank. Macro Poverty Outlook for Ethiopia: April 2023 (English). Macro Poverty Outlook (MPO) Washington, D.C.: World Bank Group.

² International Organization for Migration. Ethiopia – National Displacement Report 16 (November 2022 – June 2023). August 21, 2023.

³ The World Bank. Climate Change Knowledge Portal

⁴ World Food Programme. Ethiopia Annual Country Report 2022.

⁵ Ethiopia Country Climate Development Report, 2023, draft World Bank

⁶ World Bank. Climate Risk Profile – Ethiopia 2020.



percent in urban areas since 2018/19, compared to an increase of 9.4 percent in rural areas over the same period.⁷ Phone survey data suggest that firm revenues were significantly depressed, and at the household level, nearly a quarter of surveyed households reported their income either declined or completely disappeared.⁸ These effects are closely linked to the low skill profile of the Ethiopian labor force and to the structure of its economy and labor markets. The pandemic disproportionately affected the lowest productivity sectors, had a particularly pernicious effect on self-employed and low-skilled workers, and has negatively affected the sectoral reallocation of labor during the recovery phase.

5. **Ethiopia’s Ten-Year Development Plan (2021- 2030), based on its 2019 Home-Grown Economic Reform Agenda, aims to accelerate growth by enhancing productivity and competitiveness and diversifying the economy.** The Plan articulates priority sectors to drive growth of the economy including agriculture, manufacturing, mining, tourism, and information and communication technology (ICT).⁹ Ensuring that the labor market possesses the skills required to meet the needs of these priority sectors is foundational to achieving the growth aspirations of the country and will require significant investments. The Government is also expected to launch a revised Homegrown Economic Reform Program (“2.0”), which will set out an agenda to reduce macroeconomic imbalances, remove exchange rate and other market distortions, and advance much-needed structural reforms to increase Ethiopia’s long term economic growth potential. A strong focus on protecting the poorest from potential adjustment costs is critical to ensure that reforms are effective and sustainable.¹⁰ These economic prospects will, in turn, offset some of the existing vulnerabilities, building stronger foundations for peace, stability, and security.

6. **Despite the recent headwinds impeding progress, Ethiopia, the second most populous country in Sub-Saharan Africa, is well placed to reap a high demographic dividend and build resilience with investments in its human capital.** More than 30 percent of the population is between the ages of 7 and 19; and more than a quarter of the population is between the ages of 15 and 29. The school-age cohort of an estimated 37.8 million school-age children and adolescents (ages 7–19 years) in 2022 is expected to increase to over 43 million by 2030.¹¹ It will be important to base economic growth drivers around this young population base. However, Ethiopia’s human development outcomes are among the lowest in the world. It scores 0.38 on the World Bank’s Human Capital Index (HCI), placing it in the bottom 21 of the 174 countries included in the HCI (2020) globally.

B. Sectoral and Institutional Context

7. **Harnessing the potential of Ethiopia’s young population will be critical for the country to achieve its growth and economic transformation aspirations.** The labor market in Ethiopia is experiencing strong demographic pressure with more than 2 million youth¹² entering the labor market every year. However, inactivity and unemployment among Ethiopia’s youth has become a major policy concern over the past decade. Unemployment rates are rising across the country, with the burden falling disproportionately on the youth: Between 2013 and 2021, the unemployment rate increased from 7 to 12 percent for those aged 15-24 and doubled from 5 to 10 percent for those aged 25-34. This challenge will likely only increase in severity: Between 2020 and 2050, the number of youth aged 15 – 29 is expected to increase from 34 million to almost 54 million.¹³ Nineteen percent of youth are not in employment, education, or training

⁷ Wieser et al. 2021 and Ambel et al. 2021 and World Bank estimates based on the High-Frequency Phone survey (HFPS) of households.

⁸ Phone Survey Data: Monitoring COVID-19 Impact on Firms and Households in Ethiopia. World Bank, 2020.

⁹ Federal Democratic Republic of Ethiopia, 2021

¹⁰ World Bank. MPO for Ethiopia: April 2023 (English). MPO Washington, D.C.: World Bank Group.

¹¹ Authors’ calculation using World Population Prospects 2022 Data: Medium-Fertility Variant, 2022 – 2100

¹² Ethiopia's National Youth Policy (2004) defines youth as those between the ages of 15 and 29.

¹³ Labor Force Survey 2021



(NEET) with significantly higher rates among young women (28 vs 10 percent for men). There is strong evidence indicating that disadvantaged youth run the risk of continuous labor and social exclusion if they are not able to improve their employability by acquiring skills and work experience at a crucial time when they should be accumulated.

8. Providing market-relevant skills to the large cohort of Ethiopian youth will be essential to achieving the economic vision of the Government. As Ethiopia's economic priorities evolve, there is a mismatch between workers' skills and industry needs. In order to achieve growth and transformation in priority sectors, firms seek hard skills related to production, processing, management, and service delivery, as well as soft skills such as good communication, responsiveness, time management, and teamwork – all of which are seen as increasing workers' employability and labor productivity and thereby the overall productivity of the company.¹⁴ Despite substantial progress made on increasing overall access to education, shortages of both hard and soft skills remain. In 2019, 29 percent of youth, compared to 27 percent of all wage workers, were employed in jobs belonging to the lowest skills category (skill level 1) typically requiring the performance of simple and routine physical or manual tasks. More than a quarter of secondary school graduates were employed at skill level 1 - with some training, they could be better equipped to contribute more productively to the economy. At the same time, nearly 40 percent of primary graduates are performing jobs at higher skill levels for which they need training to become productive, highlighting the large skills deficit in the labor market.

9. Skills in Ethiopia command a higher wage premium than most developing countries. The average wage differential between skilled and unskilled labor in Ethiopia is 81 percent. At the same time, Ethiopia's labor productivity is significantly below peer countries and that productivity gap has widened over time. In 2018, the labor productivity of competitor countries Myanmar, Vietnam, Cambodia, and Tanzania was respectively 3.4, 2.9, 1.7, and 1.6 times higher than in Ethiopia.¹⁵ There is strong evidence in Ethiopia that improving skills of its workforce would not only benefit individuals by improving their income levels, but also lead to improved productivity which could contribute to growth. Since the largest share of unemployed youth are those who have not had schooling opportunities, investments are needed in making non-formal and short-term courses more available and accessible. Overall, only six percent of the Ethiopian population (10 years and above),¹⁶ has received some kind of training with the vast majority in urban areas (75 percent).¹⁷

10. Women are less likely to participate in the labor market and training, with worsening trends observed in the recent years in unemployment, NEET, and labor force participation rates. Nearly one in three women are NEET, with the rate increased by 13 percentage points between 2013 and 2021.¹⁸ The underutilized potential of women in the labor market is linked to the lack of opportunities in jobs and education. Only 36 percent of the population who have received any training are women.¹⁹ There is strong evidence associating women's ability to develop their full labor market potential and earn and control income with contributions to poverty-reduction and broader development.²⁰ Addressing the existing gender gaps in education and labor market outcomes will require deliberate actions in technical and soft skills, areas of literacy, and overarching factors such as safety.

11. Technical and Vocational Education and Training (TVET) is a key component of the Government's strategy to

¹⁴ International Labor Organization. 2022. National TVET policies and systems in Ethiopia: Opportunities and issues in challenging times.

¹⁵ Ethiopia Productivity Report, 2020. Policy Studies Institute, National Graduate Institute for Policy Studies.

¹⁶ As defined in the Ethiopia Labor Force Survey 2021, a person is considered trained if they pass any short or long-term skill/ability development-training program, given in or outside classroom, in theory or in practice or both, and that resulted in award of a certificate.

¹⁷ Ethiopia Labor Force Survey, 2021.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Heintz, J., 2006. Globalization, Economic Policy and Employment: Poverty and Gender Implications, International Labour Organization, Geneva.



improve labor productivity, reduce unemployment, and sustain growth. In Ethiopia, TVET is seen as an integral part of the solution to bridging the skills gaps by improving technical, managerial, and entrepreneurial skills to meet the changing skills needs of the economy as reflected in its 10-Year Development Plan (2020-2030). It is viewed as a key mechanism for providing youth with relevant skills to increase both waged and self-employment. To meet the goals of addressing skills mismatches, the Ministry of Labor and Skills (MoLS) was established in 2021 as part of the overall restructuring of the Government. MoLS brings under its umbrella the mandates for labor, employment, and skills, providing an opportunity to effectively bring together key players to ensure a cohesive approach to addressing skills for jobs. MoLS is responsible for labor market demand analysis, development of occupational standards (OS) in line with the TVET national qualification framework and the design of the national TVET policy and strategy. At the regional level, Regional Labor and Skills Bureaus in eleven regional states and two administrative cities have the responsibility for overseeing the public TVET institutions, regulating private TVET institutions, accreditation, teacher training programs, implementing jobs, labor, and skills related directives of MoLS and collaborating with the relevant economic and social sectors to facilitate a conducive environment for the labor market and employment activities within each state across the country. Public TVET institutions have academic and administrative autonomy to design new programs, revise curricula based on OS developed by MoLS, generate/use income and run the institutions. Quality assurance of TVET is the responsibility of the newly established Education and Training Authority which reports to the Ministry of Education. Although there is a clear policy priority to improve the access, quality, equity, and relevance of TVET programs, achieving these goals will require significant investments.

12. **TVET institutions have seen a significant expansion over the past decade.** There are close to 1,600 TVET providers in Ethiopia (up from 582 in 2017)²¹, of which half are privately owned (52.3 percent). Private TVET providers focus mostly on relatively less capital-intensive programs that are highly demanded in the market like business, health, and ICT programs. On the other hand, publicly run TVET institutions offer more technical programs that require greater infrastructure, machinery and laboratories. It will be important to leverage the large number of private providers to increase training opportunities for youth and also to ensure that the training they offer leads to jobs.

13. **Although enrollment in TVET has grown rapidly, skills levels of the labor force fall far short of requirements.** In a span of four years between 2016 and 2020, enrollment in the formal TVET institutions increased from 238,584 to 478,874. Public TVET institutions enrolled 60 percent of the total trainees and the remaining trainees were enrolled in private (20 percent) and non-governmental organizations (NGO) (20 percent) run TVET institutions. The increase in enrollment, however, falls short of the Education Sector Development Program V target (achievement was 85 percent of target). Enrollment of female students in the formal TVET programs accounts for half of total enrollment. However, more female students are enrolled in lower level TVET programs (levels I and II) than higher level programs (levels IV and V), and in terms of choice of programs female students are less likely to be enrolled in programs with higher employment and income potential like manufacturing, automobile, construction etc. This is reflected in the higher share of women in employment that is at a lower skill level.

14. **Limited participation of enterprises/employers in TVET leadership leads to supply-driven training provision.** To offer relevant and market-demanded skills, active participation of employers will be critical. A clear role for employers in the decision-making of TVET institutions around program selection, development of curricula, definition of OS, practical training of instructors, provision of cooperative training models,²² and industry-led certification of skills, will be essential for increasing the relevance of skills development in the country and improving employability of its graduates.

²¹ International Labor Organization. 2022. National TVET policies and systems in Ethiopia: Opportunities and issues in challenging times.

²² Cooperative training model refers to learning taking place in an integrated manner at two locations: in an enterprise (practical training on the job) and in a technical training institution (basic and theory training). Also called dual training model.



15. **TVET institutions suffer from low quality due to outdated curricula and limited teacher competency.** TVET curricula utilized in training are not developed in accordance with OS and do not meet the required standards due to the absence of alignment and/or mismatch between the existing OS and the practices of the local industry. There are significant instructor competency gaps. TVET teachers are recruited directly from university, where they acquire a theoretical background but no vocational pedagogy or industry experience. Consequently, teachers lack both industry and teaching experience. In addition, training focuses mainly on theory as opposed to practical training due to lack of equipment and weak linkages with industry. At the same time, facilities of some polytechnic colleges (PTCs), specifically those located in areas impacted by conflict have been severely damaged.

16. **System-level issues hindering the ability of TVET providers to respond to labor market needs include limited data, coordination, and information sharing.** There is inadequate data collected on the demand and supply of skills through labor market assessments. Without this information, training providers are unable to make effective decisions about training programs to offer. Second, data on the employment outcomes of training providers are not readily available. This information will be critical for the Government to hold training providers accountable for results and help youth decide which training programs to pursue. Third, coordination mechanisms to connect employers, the public sector and training providers are needed to ensure a dynamic skills development system that adjusts quickly to supply skills demanded by employers. Lastly, a strong policy and legal framework for formally engaging with employers would create the enabling environment for more active participation of employers in the skills development system.

17. **The GoE is prioritizing investments in public PTC to improve their relevance and quality and partnering with the private sector to expand access to high-quality training opportunities for youth.** To meet the goals of its 10-year Development Plan, Ethiopia recently updated its Education and Training Policy which was endorsed by parliament in February 2023. The overarching purpose of the policy is to produce competent graduates equipped with the 21st century skills that respond to the demands of the industry. It emphasizes an equitable and inclusive TVET system that partners with the private sector to offer high quality training opportunities to youth. The policy also emphasizes the need to invest in PTCs to create flexible training programs in collaboration with industry, professional associations, employers' union and TVET trainers. Further, it highlights the need to invest in teacher quality including through partnerships with industry to provide opportunities for practical training for TVET teachers.

18. **Short-term skills programs are a potentially promising model for countries that, in a context of fewer job opportunities and a changing labor market, are looking to skill their labor force.** The provision of short-term skills is one of the most important labor market pathways for increasing the number of youth who will not be able to complete education or continue towards higher education. A core challenge in this regard is that most institutions have a limited understanding of the needs of the labor market, and, as a result, there is often a mismatch between labor market needs and the skills with which trainees graduate. Addressing this issue requires closer linkages between the training providers and the labor market and industries. Such linkages will enable providers to tailor-make their programs to meet the demand in the labor market.

19. **Ethiopia is committed to building a climate-resilient green economy.** While transitioning to a green economy may disrupt labor markets over the next decade, it will also create significant new job opportunities. Investments in the green transition, broader application of Environmental, Social and Governance standards and climate-change adaptation are expected to have strong positive impacts on job creation with the highest net expectations for job growth in Sub-Saharan Africa (around 64 percent of companies expecting job growth less those expecting job decline).²³ It will be critical to prepare the labor market in Ethiopia with the skills needed to support the transition toward a green economy.

²³ World Economic Forum, Future of Jobs Report. 2023.



C. Relevance to Higher Level Objectives

20. **The Project focuses on practical, work-related skills to enhance employability of youth in Ethiopia while addressing skills constraints to respond and adapt to megatrends.** The Project is expected to help Ethiopia meet the Sustainable Development Goal of “promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.” It is in line with the IDA20 Special Themes of Human Capital, Jobs and Economic Transformation, Gender and Development and Fragility, Conflict and Violence. The Project is also well aligned with the World Bank’s AFE Priorities with its focus on skills for jobs, digital skills, green skills and importantly investing in people which also has the potential of addressing drivers of fragility, conflict and violence.

21. **The proposed Project is consistent with the World Bank Group Country Partnership Framework (CPF) FY2018-2022 discussed by the Board on June 27, 2017 (Report No. 119576-ET) and the new CPF under preparation.**²⁴ The CPF recognizes that low skills levels of workers pose limits on job growth in Ethiopia. It also acknowledges labor market frictions in the intermediation between supply and demand for jobs. The Project is also aligned with the Gender and Jobs corporate priority areas as it aims to increase women’s skills and access to jobs. The Project incorporates lessons from the literature on women’s economic empowerment, which recognizes that building skills, addressing early marriage, and incorporating knowledge on rights promotes women’s economic empowerment.

22. **The proposed Project also complements the government priorities in the skills development sector.** The proposed Project supports MoLS’s TVET strategic shift to integrate technology, enhance gender-sensitive training provision, promote green programs, and ensure more competent, demand-driven skills training programs. The proposed Project also aims to support the Government’s strategy of providing labor market responsive short-term training to produce a competent workforce. It is fully aligned with the Government’s approach of strengthening linkages with employers to reduce skills mismatches and ensure proficiency in soft, technical, and ICT-based skill sets. The proposed Project also complements the Government’s initiative to promote increased female participation in a broad range of training opportunities to enable more young women to gain decent jobs.

23. **The Project is aligned with Ethiopia’s Nationally Determined Contribution (NDC) submitted to the United Nations Framework Convention on Climate Change, which commits to reducing greenhouse gas (GHG) emissions by 68.8 percent by 2030.** Eighty percent of this commitment is conditional on the support of the international community. Ethiopia updated its NDC in 2021 building on its 10-year Development Plan which includes building a climate resilient green economy as one its strategic pillars. The greening of the economy necessitates a concomitant greening of employment, which in turn necessitates green skills availability in the labor market and TVET to deliver those skills. The Project contributes directly to providing the labor market with the knowledge, skills, and behaviors needed to transform workplaces and communities in line with the greening initiatives of the GoE. The Project is also consistent with the country’s National Adaptation Plan (2019) which includes expanding environmental education and awareness as a key adaptation measure. Lastly, the Project is fully aligned with Ethiopia’s Long-term Low Emissions and Climate Resilient Development Strategy (2020-2050) which recognizes the role that women, youth, and vulnerable communities play in climate action, and in alignment with national sustainable development policies, aims to maximize opportunities for gender and social inclusion outcomes. The Project puts special emphasis on providing women and disadvantaged youth with the skills needed for productive employment, specifically in occupations that support the transition to a green, resilient economy.

²⁴ World Bank (2017), Ethiopia Country Partnership Framework for the period FY18–FY22 (Report No. 115135-ET) (World Bank, Washington, DC)



II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

The Project Development Objective is to improve employment outcomes of the TVET system of Ethiopia with a focus on women and marginalized groups.

Marginalized groups refers to IDPs and persons with disabilities (PWDs).

PDO Level Indicators

The PDO will be measured by the following indicators:

- Employment rates of graduates of project-supported training programs (percentage of employed/self-employed within 6-12 months of completion of training), disaggregated by gender, IDPs and persons with disabilities
- Number of students who successfully complete project-supported training programs, disaggregated by gender, rural, IDPs, PWDs and green skills.
- Number of Sector Skills Councils (SSCs) established.

B. Project Components

24. **The proposed Project will support Ethiopia to strengthen its TVET system to equip its youth with labor market demanded skills to improve their employment prospects.** It aims to achieve this through (i) transforming selected public PTCs to offer high-quality, relevant skills in partnership with enterprises; (ii) short-term training of youth through performance-based contracting of public and private training providers; and (iii) addressing information gaps and improving coordination of stakeholders in the TVET sector. Component 1 supports mainly formal training programs which are currently mostly offered by public training providers in Ethiopia. Component 2 aims to leverage the private sector to meet the skills needs of youth through short term training programs to help them gain employability in the short term. Together these complementary approaches aim to meet the diverse needs of both employers and youth seeking employment.

25. **The Project focuses on skills development opportunities for women and vulnerable and marginalized groups, including IDPs and PWDs.** Training opportunities will be made available to youth ranging from secondary school dropouts to university graduates who are not currently employed to enable them to attain skills that lead to jobs. Several design elements address constraints faced by women in acquiring skills that lead to productive jobs. In addition, incentives for enrolling disadvantaged communities such as the large numbers of IDPs who are escaping conflict in the country have been integrated in project design. Because IDPs are usually not able to choose their locations based on host community labor market needs, there is a higher likelihood of skills mismatch. Training programs to reskill IDPs in areas relevant for their new locations can contribute to their productive employment. Specifically, qualitative and descriptive evaluations show positive results for ICT skills such as coding.

26. **Many jobs in Ethiopia today, and those in the future, will require a combination of problem-solving, and critical**



thinking as well as soft skills and basic digital skills in addition to technical skills.²⁵ The Project will focus on these core sets of skills alongside technical knowledge in all the training programs it supports. In addition, Ethiopia's TVET strategy puts emphasis on building entrepreneurship skills as an important avenue to enterprise development and job creation. To support this goal, the Project will support mainstreaming of entrepreneurship training in PTCs that the project supports. Lastly, there will be a special focus on *green skills* that could generate climate co-benefits, through training in areas such as renewable energy, eco-tourism, and improved energy and water use for agriculture.

Component 1: Strengthening public polytechnics for improved labor market outcomes (US\$110 million equivalent)

27. **Component 1 will strengthen selected PTCs to produce high-quality skilled graduates that meet the industry's needs in priority sectors of the economy.** The PTCs have been selected following transparent criteria which consider geographical coverage and labor market relevance. At least one PTC has been selected in each region to ensure national coverage. The PTCs will develop strategic investment plans (SIPs) in close collaboration with industry/employers to upgrade their institutes as comprehensive training hubs offering, in conjunction with surrounding enterprises, formal TVET alongside needs-based short duration reskilling and upskilling training programs that respond closely to market demand to enhance enrollment while improving the employability of trainees. The development and implementation of the SIPs, which provide a blueprint for upgrading the PTCs to Centers of Excellence, will be approved by the Project Steering Committee (PSC) and financed by the Project. Each SIP includes targets for the various areas for improvement described below which will be tracked during project implementation to measure impact of the investment.

28. The SIPs focus on:

- **Strengthening governance and management of the PTCs.** Industry Advisory Boards (IABs) with participation of industry local to the PTC will be established as part of the SIPs to advise on improving relevance of program offerings, availing opportunities for staff industry attachment, student placement and assessment. IABs will be responsible for establishing partnerships with local industry to establish cooperative training programs for students and foster employment opportunities of PTC graduates. Specifically, they will include incentives for private sector engagement in the SIPs. The number of partnerships with employers forged will be tracked to monitor performance.
- **Introducing training programs that meet the needs of the industry.** Based on the national OS developed in close consultation with relevant industries, the PTCs will design highly demanded programs or update existing programs to meet the growing needs of the industry, with a focus on the priority sectors. PTCs will forge partnerships with other regional and international training institutions in their targeted sectors, through twinning arrangements for instance, to develop high quality training programs. Specific emphasis will be placed on developing industry-certified digital skills programs for which demand has been established and green skills programs that support the green transition of the economy such as, renewable energy, climate-smart agriculture, waste management, environmental sustainability, eco-tourism, etc. Existing curricula will be updated to include modules focusing on soft skills training including on communication, problem-solving etc.²⁶ In addition, environmental protection and climate related issues will be introduced in all curricula to enhance climate and disaster risk adaptability knowledge and awareness building for all beneficiary groups on the dynamics, effects and mitigation strategies related to climate change.
- **Entrepreneurship training.** Given the high level of informality in Ethiopia and the importance of self-employment for creation of jobs in the Ethiopian labor market, each SIP will include establishment/strengthening of an Entrepreneurship program in the supported PTCs. The programs will prepare students for successful self-employment or for managing a small business. Topics related to climate change will be included in all

²⁵ World Development Report, The Changing Nature of Work, World Bank, 2019

²⁶ Integration of foundational transversal competencies into technical subjects has been successfully implemented in Vietnam and will provide lessons for implementation in Ethiopia.



entrepreneurship training to understand climate change, the risks associated with it and the steps that will need to be taken to mitigate these risks. Lessons from implementation of the Educate! Program focused on employability and entrepreneurship implemented in Uganda, Rwanda, and Kenya which has proven to generate higher income, employment, and business ownership, particularly for females, will inform the introduction of these programs.²⁷ The PTCs will work closely with the Entrepreneurship Development Institute (EDI), that already runs similar programs in Ethiopia, to introduce/strengthen these programs.

- **Training of Trainers.** The SIPs will invest in upgrading the capacity of TVET trainers through both short term and long-term training programs. The training will focus on enhancing technical, pedagogical, and digital skills of trainers. Female trainers will be prioritized. The teacher training programs will emphasize inclusion of content on climate change mitigation to update faculty skills. PTCs will work closely with relevant leading industries in availing practical training for the trainers through industry attachments. Based on lessons learned from China, where most teachers have only academic qualifications as in Ethiopia, instructors in vocational institutions will be required to spend time in the industry updating their technical skills, strengthening contacts with employers and planning cooperative training activities for TVET students.
- **Upgrading existing college facilities and equipment:** Existing facilities will be refurbished with a special focus on ensuring the facilities provide safe and conducive environments for female students, including separate water, sanitation and hygiene (WASH) facilities. The refurbishment will leverage the use of energy-efficient technologies to reduce GHG emissions where possible, utilizing, for example, energy-saving measures such as solar systems and energy-saving bulbs, as well as rainwater harvesting to support water conservation. The facilities will be equipped with modern technologies that will transform teaching at the polytechnics. The PTCs will be upgraded to combine technological tools such as virtual reality, augmented reality, and other immersive technologies, to provide students with hands-on and engaging experiences, and practical exercises that allow multiple repetitions without posing additional risks in various fields. In addition, use of technology is expected to mitigate climate risk by promoting resilience of the TVET system in the face of disruption due to natural and manmade disasters. PTCs will be supported²⁸ to design college-specific technology solutions that improve the quality of the programs and transform the learning experience of learners to prepare them for the future of work. The interventions designed will be included in the SIPs and implemented with support from the Project. Further, emphasis will be placed on (1) increasing private sector inputs when procuring new materials and equipment to ensure they reflect the state of the art; (2) partnerships with the private sector to allow for use of equipment after hours, or at least observing use during work times, and to secure equipment donations, particularly when large firms, foreign or domestic, are making new investments; and (3) increased emphasis on cooperative training that can reduce institutional infrastructure and equipment needs.
- **Interventions for female trainees.** SIPs include special interventions for women to enroll in non-traditional courses. Although there is gender parity in TVET enrollments in Ethiopia, women have significantly worse employment and earnings outcomes. This is consistent with global evidence which shows that gender segregation in TVET fields of study matters for future earnings. Evidence from Uganda shows that women who cross over into male-dominated sectors make as much as men and three times more than women who stay in female-dominated sectors.²⁹ In Ethiopia, a similar study of entrepreneurs also found significant profit gaps along the same divisions.³⁰ Evidence

²⁷ BRAC. 2018. Propensity Score Matching End of Course Evaluation Report.

²⁸ The World Bank has received a US\$150,000 grant from the Master Card Foundation which will be used to provide this technical support to the selected PTCs.

²⁹ "Breaking the Metal Ceiling: Female Entrepreneurs Who Succeed in Male-Dominated Sectors." Policy Research Working Paper No. 7503. Washington, DC: World Bank.

³⁰ 2015. "Female Entrepreneurs Who Succeed in Male-Dominated Sectors in Ethiopia." Gender Innovation Lab Policy Brief No. 12. Washington, DC: World Bank.



shows that lack of information and networks are a main constraint.³¹ To address this, the SIPs will include interventions to (i) share information with female youth on profitability of business sectors and encourage more women to enter higher-return male-dominated sectors; and (ii) create linkages with lending initiatives such as Women Entrepreneurship Development Project (WEDP; P122764) which support female entrepreneurs.

- **Tracer studies.** Each PTC will conduct tracer studies annually to track the employment outcomes of their students. This information will be critical for PTC level decision-making on the types of training programs to offer to improve overall employment outcomes and the need for forging partnerships with potential employers. These studies will also be helpful in identifying constraints faced by particular groups of students in gaining employment, for instance, women, so that these can be addressed in a systematic manner.
- **Facilitate outreach and support for non-project TVET institutes to maximize the spillover effects.** The selected PTCs will serve as cluster leads of colleges, institutes, and training centers engaged in vocational training. Strengthening outreach services of PTCs is expected to help increase capacity of the cluster colleges. The selected PTCs will include the following activities in their SIPs to facilitate other TVET institutions (including private) in their clusters: (i) capacity enhancement training for staff of cluster TVET institutions; (ii) sharing updated curricula and teaching materials; (iii) availing PTCs' equipment and workshops, laboratories, and digital learning facilities. Moreover, the PTCs will serve as model of best practices that can be replicated in these institutions.

Component 2: Skills for Jobs (US\$80 million equivalent)

29. **Component 2 will support short-term skills programs through a competitive and performance-based financing model that links payments to the employment outcomes of participants.** This component will promote establishment of new training programs or expansion of existing programs for in-demand skills that demonstrate potential for high employment outcomes. Programs to be supported will cater to the needs of the local economies and deliver relevant foundational skills, soft-skills, green skills, digital skills, and entrepreneurship skills, in addition to sector-specific technical skills. Private, public and not-for-profit NGOs—will be able to submit proposals to apply for support from this component. Training providers will be competitively selected and will be paid following a performance-based model, on the basis of milestones achieved and verified—including the employment outcomes of program graduates. Approximately 100,000 employed and unemployed youth in the age group 15-29 years old including Grade 12 or lower education, with priority for women (at least 55 percent), will benefit from wider access to certified short-term skills training programs through this component. In addition, rural, IDP, PWD and conflict-affected populations will be targeted.

30. **Proposals will be requested through a number of windows, and the selection will be done competitively using a points-based system and a set of eligibility and selection criteria.** In addition to a general window, the call for proposals will include a “Green Skills Window” that will support training programs in areas such as renewable energy (solar, wind, etc.), agro-processing, waste management, eco-construction and eco-tourism among others to increase the supply of green skills in the labor market. An “Entrepreneurship Window” to strengthen self-employment outcomes, and a special window for IDPs to support trainees from the conflict-affected regions of Ethiopia will also be included. Other dedicated windows may be created according to different needs across regions and industry/entrepreneurship skills needs. The specific eligibility and selection criteria will be described in the implementation manual, to be developed and approved prior to any disbursement under this component. The quality of a proposal will be assessed on the basis of the willingness and capacity of the training provider to deliver greater access to disadvantaged groups and to place graduates into employment after training completion. Projected employment placements and earnings of program graduates will be given attention. Extra points will be awarded to the training of women in traditionally male-dominated trades, and to training programs catered to rural, and disadvantaged populations. Scoring criteria will promote training programs for

³¹ Ibid.



industries prioritized by national policies that can benefit from additional guidelines on clean and sustainable practices. Two examples are automobile repairing and textile industry, where environmental needs have a primary role when developing training material for future sustainable employment needs.

31. **Payments will be outcome-based and dependent on completion of specific milestones.** Payments will be structured to incentivize training providers to offer market-needs oriented and quality training programs, collaborate closely with employers, and pursue activities that are beneficial to their graduates' wage- and self-employment outcomes. Milestones selected for reimbursement will include indicators such as the number of participants enrolled into the training; the number of participants who completed training and were tested and certified; and the labor market outcomes of participants post training. Each of these milestones are expected to be disaggregated by gender and other socioeconomic characteristics to be specified in the PIM. Labor market outcomes related milestones for payment will measure gainful employment/self-employment status of trainees within three months and gainful employment/self-employment status and monthly earnings within six months of training completion. Programs that do not meet minimum employment targets will be dropped. Higher payments will be used to incentivize providers to select, train and place women, trainees from rural areas, IDPs and PWDs into jobs.

32. **A rigorous impact evaluation will be built ex-ante into the component design.** The use of a randomized control trial impact evaluation has been agreed with MoLS to assess whether this component is achieving its intended outcomes and establish their causal impact by comparing outcomes between the control and treatment units (receiving the base and alternative options, respectively). Evaluation activities will be introduced during the pilot stage and continue as the component is rolled-out to allow for iterative learning and to identify adjustments to the design and implementation of these approaches that can generate larger positive changes in outcomes in subsequent rounds.

Component 3: System Strengthening (US\$10 million equivalent)

33. **Component 3 will enhance the information, coordination, and capacity of the TVET system to make it more dynamic in responding to the evolving technical skill needs in the economy and improving employability of its graduates.** The recent establishment of MoLS, which brings under its umbrella the mandates for Labor, Employment, and Skills, provides an opportunity to effectively bring together key players to ensure a cohesive approach to addressing skills for jobs. The main challenges to realizing this promise are lack of information among actors, inadequate mechanisms for coordination, limitation in capacity, and weak incentives for engagement. The Project will address these challenges through the following three subcomponents:

34. **Subcomponent 3.1. Information for decision-making (US\$3 million).** The project will invest in creating an information system that aggregates existing data collection systems to enable skills analysis and forecasting to close the gaps between skills supplied by the TVET system and those demanded by employers. The skills management information system (SMIS) would integrate the available skills supply and demand information for decision-making at the local, woreda, and regional levels to the national level, including overseas markets. The SMIS would create a unifying language to assess the labor market for the priority sectors to quantify demand for training programs and map jobs and skills across the priority sectors to assess current and forecast future skills demand and identify mismatches. It would also enable targeting and profiling mechanisms to ensure the participation of women, rural and urban unemployed, PWDs, and IDPs. As part of the SMIS, the Project will conduct tracer studies to set the baseline for employment outcomes of TVET institutions across the country.

35. **Subcomponent 3.2. Strengthened system coordination (US\$1 million).** This subcomponent will support



establishment of formal coordination mechanisms to ensure alignment of the skills supply and demand for improved employment outcomes. With support from this subcomponent, MoLS will establish SSCs for 4-5 priority sectors that bring together employers, the public sector (e.g., Ministry of Education, Ministry of Industry), and training institutions to ensure that skill demand and supply are aligned. The SSCs would help resolve fragmented decision-making amongst the different public and private actors to improve capacity, increase labor productivity, continuously adjust to changes in market demands and trends, and build an enabling skills ecosystem.

36. **Subcomponent 3.3 Strengthened system capacity for policymaking and implementation (US\$ 6 million).** This subcomponent will support MoLS in creating an enabling policy environment for sustained reforms in the skills development sector. It will provide technical assistance for defining clear institutional arrangements with defined roles and responsibilities, developing industry-led occupational and assessment standards for training and certification to meet the skill demands in the priority sectors, and instituting incentives for industry and private sector engagement. It will also support evaluation of interventions to ensure inclusiveness of disadvantaged and marginalized groups (women, unemployed rural and urban, PWDs, IDPs, returnees, refugees and host communities, and emerging regions, etc.) with a focus on devising policies and interventions that improve their employment outcomes. The subcomponent will also support implementation of the new TVET reform policy through building the capacity of the ministry, regions, and woredas to ensure a resilient, adaptive, inclusive, and sustainable skills ecosystem.

37. This sub-component will also finance a Delivery Unit (DU) which will oversee overall implementation of the project, compliance with fiduciary and social and environment risk management procedures and monitoring of and reporting on project activities. The sub-component will finance the activities related to these functions including the implementation of the environment and social measures and monitoring and evaluation (M&E) activities including the surveys and evaluations (see Section III.B).

C. Project Beneficiaries

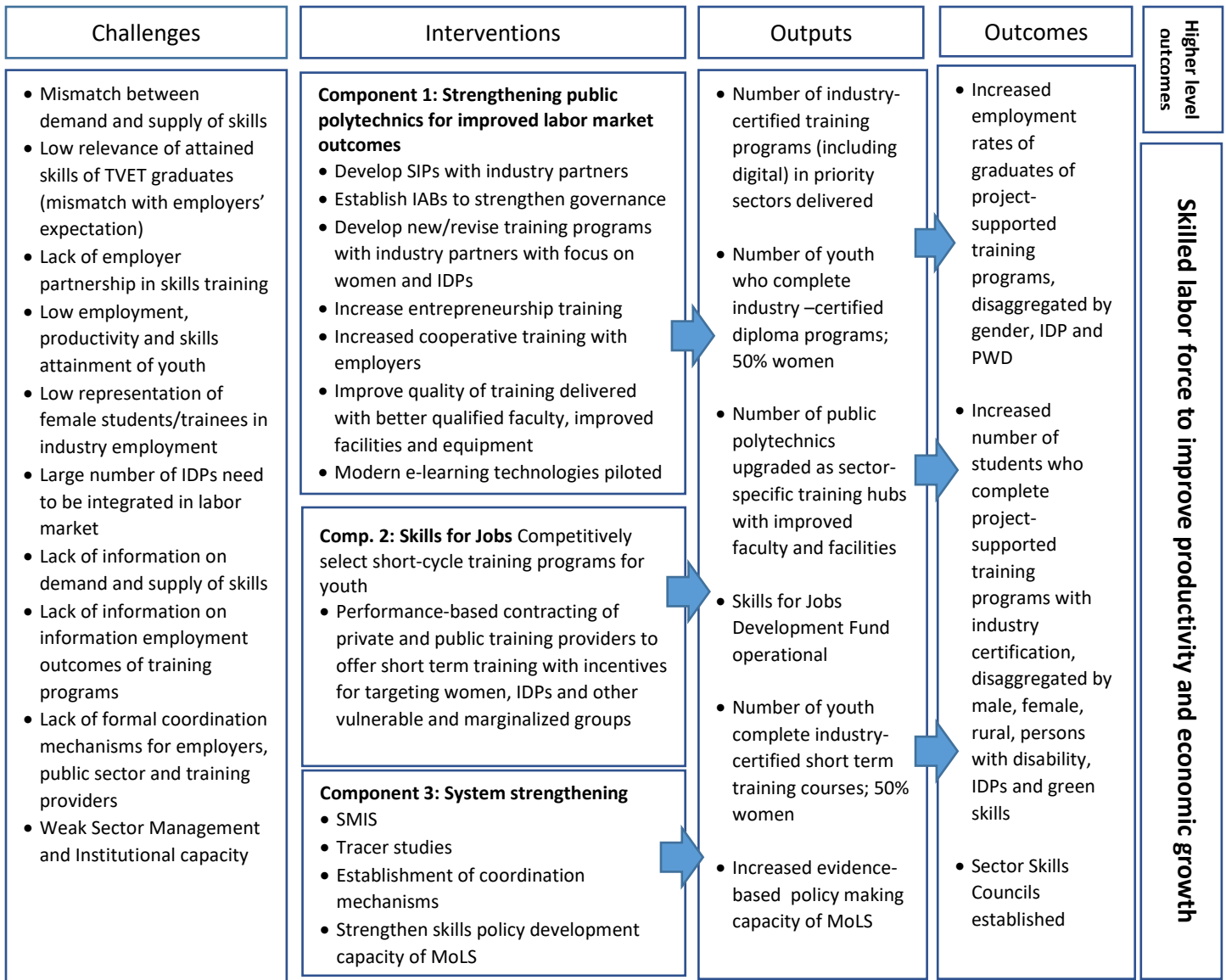
38. **Primary beneficiaries of the Project will be youth who will benefit both from increased opportunities for training that leads to employment as well as better quality training to ensure their success in the labor market.** The Project is expected to benefit at least 200,000 youth (3 percent of NEET youth) directly through high quality training and linkages to employment, both in the formal sector and self-employment. Women (at least 50 percent of project beneficiaries), IDPs (at least 15 percent of project beneficiaries) and youth with disabilities (at least 8 percent of project beneficiaries) will be specifically targeted to benefit from training supported by the Project. Secondary beneficiaries of the Project include staff of PTCs and MoLS who will benefit from capacity building support. Lastly, employers are expected to benefit from better skilled labor that can contribute to their productivity and growth.

D. Results Chain

39. **The Project provides a package of interventions to equip youth (particularly women and those from marginalized groups) with relevant skills to improve their employment prospects and increase labor productivity.** The Results Chain is depicted in Figure 1.



Figure 1: Project results chain



E. Rationale for Bank Involvement and Role of Partners

40. **Development resources channeled through the Government are essential to ensure longer-term solutions for TVET challenges in Ethiopia.** The Government has strongly prioritized investment in education, with more than a fifth of public spending directed toward the education sector. It also recognizes the importance of strengthening the TVET system, and has invested in significantly expanding the TVET system, however, significant additional financing is needed to meet the targets for skills training for youth in the country and to improve the quality and relevance of the system. Private sector financing is limited, as the current TVET sector does not provide sufficient incentives for the involvement of private training providers. It is necessary to continue to promote private sector/industry involvement in TVET financing and encourage public-private partnerships. However, in addition to the complementary support and technical assistance provided by other donors, it is essential to increase public sector investment for TVET to ensure harmonization with the



Government's vision and provide sustainable solutions to the identified challenges with TVET access, quality, relevance, and equity.

41. **The value added of the World Bank's support stems from several aspects.** First, the World Bank is technically and operationally engaged in several sectors related to the education and jobs agenda in Ethiopia, allowing for a more holistic and coordinated approach to skills for jobs in the country. The World Bank supports the basic education sector through the General Education Quality Improvement Program for Equity (GEQIP-E; P163050) focused on building foundational skills of children who will eventually form the labor market of the country. The proposed Project will strengthen the post-basic education TVET stream that will improve job-readiness of these students. A range of wage and livelihood interventions under the safety net operations (Strengthen Ethiopia's Adaptive Safety Net, SEASN, P172479; Urban Productive Safety Net and Jobs Project, UPSNJP, P169943), with the latest generation of these projects taking a comprehensive and more focused approach towards improving jobs outcomes including an Apprenticeship Program for disadvantaged urban youth under UPSNJP also provide complementary support. The Economic Opportunities Program (EOP; P163829) supports the creation of economic opportunities through supporting Ethiopia's Industrial Parks and the WEDP supports Medium Sized Enterprises owned by the participating female entrepreneurs through access to finance. The proposed Project will complement these projects to provide relevant skills to prepare and link them to jobs created through these interventions. Second, the World Bank as a convening power can facilitate the engagement of a variety of partners, including international TVET institutions, private industry, and other development partners for the various activities envisioned under the proposed activities. Third, the World Bank is a strong partner for skills development in the region which has allowed for extensive experience and lessons learned in the sector for implementation. The World Bank financed East Africa Skills for Transformation and Regional Integration Project (EASTRIP; P163399) supports Regional Flagship Training Institutes in Ethiopia, Kenya and Tanzania in priority sectors which has provided important lessons for transforming training institutions in the country. EASTRIP also supports system strengthening activities such as improvements to the quality assurance system which are complementary to EASE. The proposed Project will scale up and advance the reforms started under EASTRIP to strengthen the skills development ecosystem of Ethiopia.

42. **Role of partners.** Major partners in youth skilling and employability include the German Agency for International Cooperation, International Labor Organization, Norwegian Ministry of Foreign Affairs and the United States Agency for International Development. The support provided is limited in terms of geographic coverage, focal sectors and supported institutions. There is no system-level, nation-wide support and there is currently a lack of coordination which has led to duplication of efforts and limited impact. The proposed Project aims to strengthen MoLS to play a stronger coordination role in the skills sector and leverage partner support more effectively for sustainable results.

F. Lessons Learned and Reflected in the Project Design

43. **Lessons from Ethiopia and globally to strengthen enterprise engagement to design and implement TVET strategies and programs have informed project design.** Within Ethiopia, the establishment of IABs at the institute level under EASTRIP have led to stronger linkages with employers resulting in improved relevance of training and employment outcomes of trainees. Globally, SSCs in Bangladesh, Brazil, Ghana, Mozambique, Namibia, the Philippines, South Africa, Sri Lanka, and Uganda have provided platforms for improved collaboration which the project has integrated in its design.

44. **Lessons from implementation of performance-based contracting have informed project design.** The design of Component 2 builds on previous experience with implementation of performance-based contracting in Ethiopia and around the world. Results-based financing was pioneered and has been utilized in the health sector in Ethiopia since 2015. The approach has been subsequently piloted and tested in the context of skills training provision by the SKY project



in Amhara region and UpWomen in Sidama region, which linked payments to training providers to training, placement and entrepreneurship outcomes of graduates, as mechanism to ensure that the training offered is market-needs oriented. A recent review of the international practices showed that, with appropriate planning and systems in place, performance-based contracting of training provision can help achieve intended employment outcomes, as experiences in Chile, Colombia, Grenada, Liberia, and Nepal show.³² The report further highlighted that, overall, performance-based contracting has been strongly endorsed in the evaluation of projects in which it has been used. Lessons from implementation of these programs have informed the design parameters of the component and highlighted the importance of increasing accountability by measuring results such as graduates' employment outcomes.

45. **Lessons on addressing occupational gender segregation have informed elements of both Components 1 and 2 of the Project.** Studies show that female TVET students are very underrepresented in programs leading to more profitable jobs, including science, technology, engineering and mathematics, among others. This is largely due to restrictive gender norms and lack of knowledge. Examples from Republic of Congo showed that mentorships and provision of information allow women to make more informed decisions about TVET programs and employment, and examples from Uganda show that women who crossed over to male-dominated jobs made more than three times that of women in typically female occupations.³³ These have informed targeted interventions under Component 1 to address information gaps to incentivize women to pursue non-traditional courses, and to encourage TVET providers to train women in non-traditional trades under Component 2.

46. **Global experiences on system capacity and data collection have been taken into consideration during program design in a variety of ways.** Often, complex governance structures with overlapping mandates or a fragmentation across ministries in terms of regulation can lead to parallel systems and make it difficult to enforce standards. Additionally, studies from several countries show that many systems are weak in the collection or use of data to monitor performance (Indonesia, Egypt, Tanzania), or that data are not systematically analyzed or used for decision-making or resource allocation (Grenada, Kenya, Timor-Leste). These challenges, as well as successful experiences in countries such as Singapore, South Korea, and Malaysia on strengthening information systems have informed the development of this Project.³⁴ These lessons have been incorporated into project design (particularly in Component 3) to ensure that the recently established MoLS will have the technical capacity to effectively lead and coordinate policy-level dialogue on TVET and to create a more robust system for collection and use of relevant data by stakeholders.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

47. **The Project will be implemented by MoLS.** Established in 2021, MoLS is tasked with leading the jobs, labor and skills development sectors under the respective State Ministers, by bringing federally mandated institutions under its purview. Public polytechnics, other than the Federal TVET Institute and the College of Agriculture and Tourism Training Institute, are managed by their respective regional TVET bureaus.

48. **A Project Steering Committee (PSC), chaired by the MoLS Minister, will be established to provide overall**

³² 2020. "Demand-Driven Skills Training and Results-Based Contracting: Lessons for Youth Employment Programs." Washington, DC: World Bank.

³³ The World Bank, UNESCO and ILO (2023). Building Better Formal TVET Systems: Principles and Practice in Low- and Middle-Income Countries. Washington D.C., Paris, Geneva: The World Bank, UNESCO, and ILO.

³⁴ Ibid.



guidance for project implementation. The PSC will comprise of all three State Ministers of MoLS, representatives from Industry (Chambers of Commerce), Ministry of Finance, Ministry of Education, Ethiopian Disaster Risk Management Commission selected regional TVET bureaus, private sector training provider representatives and select PTC principals. The PSC will provide strategic direction and guidance on high-level risk management and decision-making on project objectives. This inclusive body will be crucial for promoting dialogue, consensus-building, and joint decision-making on key aspects of the TVET system. The PSC will also provide a platform for collaboration, management, troubleshooting and technical support for implementation of the Project.

49. **MoLS will establish a Delivery Unit (DU) within MoLS that will be responsible for coordinating implementation of the components.** The DU will coordinate implementation, build capacity of Ministry teams for implementation, facilitate support for compliance with environment and social requirements for the Project, collect and compile data from the project results framework, and manage communications for the Project. Project Implementation Teams (PITs) will be established for each of the project components to implement project activities. These PITs will comprise of a Coordinator, Financial Management (FM), Procurement and Social and Environment Specialists and other technical staff as needed. The PIT for Components 1 and 3 will be under the State Minister of TVET and the PIT for Component 2 will be under EDI. Details of the implementation structure are provided in Annex 1.

B. Results Monitoring and Evaluation Arrangements

50. **The overall project monitoring activities will be undertaken by the DU, which will be responsible for tracking the achievement of the PDO.** The DU will be responsible for establishing systematic monitoring mechanisms and undertaking continuous data collection from all the project implementing entities. The DU will: (i) routinely monitor project performance; (ii) collect and collate data from all participating agencies; (iii) report the data necessary to monitor the results framework; (iv) produce bi-annual project monitoring/progress reports to be shared with the PSC and the World Bank; (v) conduct project midterm and completion reviews; (vi) coordinate surveys and evaluations during the project lifetime; (vii) arrange third party verification of data submitted by training institutions; and (viii) provide technical support to training institutions to strengthen their monitoring systems.

51. **Data Collection and Verification: Data from training institutions will be collected on a six-monthly basis through a set of monitoring templates developed for the different components of the project.** Submission of baseline data will be part of the preparation and approval of the SIPs for the PTCs supported under Component 1 and the application process by candidate institutions (for short courses) under Component 2. The participating institutions will be required to collect and report data disaggregated by gender, PWD, IDP status, and location. Participating training institutions will conduct annual tracer studies and provide job placement/employment data to the DU. Third-party verifications will be commissioned by the DU to verify the result achievements of the supported training institutions.

52. **A robust reporting and verification mechanism will be set in place for Component 2.** A joint monitoring team, consisting of members from within the governance structure and independent third-party monitors, will visit the training and employment locations for each round of supported trainees, multiple times during the relevant period, to assess training provision, training quality, and employment and earnings status. Short- and medium-term employment outcomes will be tracked and will reflect the level of contract compliance that will determine the disbursements from the component. A communication plan will be prepared to ensure that training providers understand the conditions for payment in the contract.

53. **Evaluations:** The Project will undertake (i) a graduate tracer study to establish the baseline for the Project in year



1 of the Project; (ii) Employer Satisfaction surveys in Years 2 (baseline), 3, 4, and 5 of the Project; and (iii) annual beneficiary feedback surveys to collect feedback on training from students. In addition, rapid, iterative evaluations are planned to measure impact of training and make any course corrections needed to enhance outcomes. This will also help optimize design parameters of this innovative new program being introduced by the Project.

C. Sustainability

54. **The Project's investments in expanding high-quality and market-driven training programs and upgrading the system-level capacity for adaptable skills development system is expected to have lasting impacts on the skills development landscape in Ethiopia well beyond the project duration.** Under Component 1, the Project will strengthen the capabilities of a significant number of training institutions through better governance, improved skills of teaching staff and up-to-date training facilities and equipment. EdTech solutions will be introduced to improve resilience and cost effectiveness of training. Use of technology for teaching-learning will build resilience in the TVET sector for future shocks and climate-induced disasters and conflict. The Project will promote partnership with industry/employers that would improve sustainability of training programs through cooperative training, industry attachments and potential cost sharing. Component 2 will use performance contracting to rapidly expand training opportunities by leveraging private training providers in a cost-effective manner. Various capacity development activities under Component 3 will enhance the adaptability of existing government systems and institutions to respond to the changing technology needs of industries.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Technical Analysis

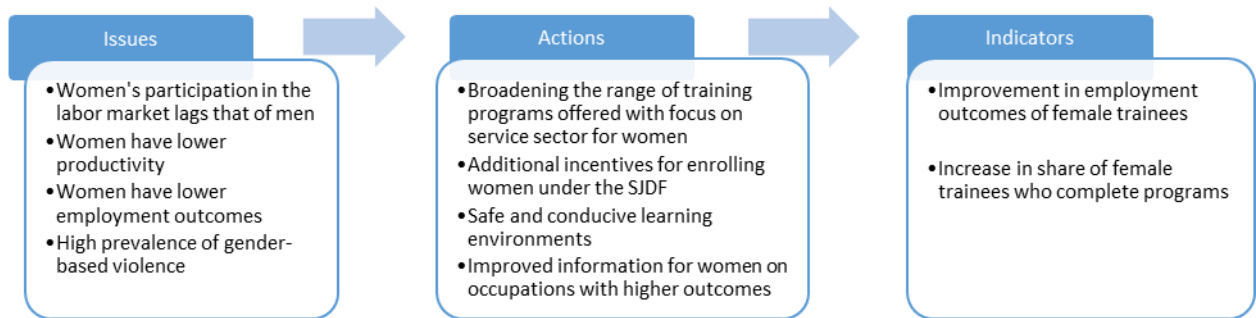
55. **The strategic relevance of the Project is aligned with the World Bank Group CPF FY2018-2022 for Ethiopia, government priorities in the skill development sector, and builds on experience in implementing skill building system reforms in Ethiopia and internationally.** The components collectively aim to address constraints in the TVET system by providing integral support in building a stronger and more inclusive system that is focused on developing tools to respond to supply and demand driven factors. Specifically, the introduction of new approaches including the building and strengthening of information systems to advise actionable system reform, the introduction of a competitive mechanism for the targeted result-oriented strengthening of skill training providers, and continued resource improvement for TVET institutions, including all selected PTCs. The Project makes a clear effort to bring a wide range of stakeholders together to ensure sustainability, relevance, and inclusivity. It does this in the following ways – firstly, all key stakeholders were part of the project preparation team in the design and planning phase, and secondly, they will be represented in the decision-making committees during the implementation phase, and will also be invited to participate in knowledge sharing forums during implementation progress reviews. The Project supports the needs of the diverse group of stakeholders by ensuring that the design is aligned with their concerns and the various components complement each other. The Project is forward looking beyond the period of its implementation and will support the development of a national strategic framework as a common platform for the TVET and skill developing activities in the country.

56. **The proposed Project will focus on improving the skills and labor market outcomes for women.** Experience in other countries has shown that female participation in the labor market improves once the range of sectors covered in



technical institutions is broadened towards modern occupations, notably service sector professions.³⁵ New occupational specializations emerging in dynamic economic sectors provide attractive job prospects for female youth, such as computer-aided design/manufacturing and other technology-based jobs. In addition, improving the attractiveness of training institutions for women matters, including employing more female teachers, enhancing sanitary facilities, introducing women-targeted counselling and employment promotion programs, effectively addressing any potential gender-based violence (GBV) threats and creating a safe campus. The Project includes interventions across the different components to integrate these efforts and improve participation of women in training programs and focus on their employment outcomes in addition to broadening the range of programs offered and creating safe and conducive learning environments. See Figure 2 for the results chain to improve female participation in training.

Figure 2: Results chain for improving female participation in training and employment outcomes



57. **The Project will proactively address climate change issues affecting Ethiopia.** Ethiopia is prone to extreme temperatures, droughts, and flooding, and has seen an increase in the temperature and rainfall in recent years. The Project will promote adaptation and mitigation through focusing TVET institutes on issues of climate change, including energy and agro-processing to develop quality high-skilled human resources and build capacity of these institutes for research and innovation. It will foster strategic careers for mitigation and adaptation such as renewable energy, landscape planning, sustainable urban development, and renewable natural resources engineering. Curricula, training materials and teacher training will be updated to include topics related to climate change and risk management. In addition, institute management, teachers and students will be trained on these topics to promote adaptation. Lastly, rehabilitation of infrastructure will be energy-efficient and climate-smart.

58. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.**

- a. **Assessment and reduction of mitigation risks:** The majority of Project activities are universally aligned with mitigation goals, such as capacity building and dissemination activities. The only area of the Project design that is not universally aligned involves infrastructure activities (refurbishment, including WASH facilities, etc. of selected PTCs under component 1). This infrastructure is expected to be low risk, i.e., the facilities supported by the Project will be fully electrified, grid connected, and their energy use will not involve fossil fuels. Design and construction will leverage the use of energy-efficient technologies to reduce GHG emissions where possible, utilizing, for example, energy-saving measures such as solar systems and energy-saving bulbs, as well as rainwater harvesting to support water conservation. In addition, the Project will promote tree planting at the selected PTCs which will contribute to reducing GHGs. These buildings have a low likelihood of locking in carbon and are expected to be economically viable after accounting for transition risks.

³⁵ See also World Bank / International Labour Office, 2013. Towards a Model Apprenticeship Framework. A Comparative Analysis of National Apprenticeship Systems.



- b. **Assessment and reduction of adaptation risks:** The main climate and disaster risks likely to affect the Project locations, are heavy rainfalls and flooding as well as droughts caused by increases in temperatures. These climate events pose a risk to Project activities, potentially affecting infrastructure in flood-prone areas and disrupting the teaching-learning process. The Project will manage the climate and disaster risks through targeted adaptation measures. Specifically, the Project will promote climate-resilient infrastructure for PTC rehabilitation, making them safe places for youth to learn. For example, special construction quality related protocols will be put in place for PTCs in disaster susceptible locations and their management capacity will be improved to ensure close collaboration with the disaster management authorities regarding access to disaster early warning systems. Resilience in the sector will be built by creating emergency preparedness, by using EdTech tools to ensure continuity of services during future crises, including climate related disasters such as floods. Furthermore, training programs that focus on climate-resilient skills, such as sustainable agriculture, renewable energy, and water management will be offered by the Project to equip youth with the skills they need to adapt to the changing climate and build sustainable livelihoods. In addition, curricula of training programs will be updated and teachers and institute leaders trained on climate vulnerability, disaster risk, adaptation knowledge, environment awareness, responsible energy consumption and GHG emissions, emergency evacuation protocols in cases of extreme natural and man-made disasters (such as fire). Capacity building of MoLS and Regional Skills Bureaus on GHG reduction, climate change mitigation and sustainable energy will be supported (sub-component 3.3) including enhancement of data recovery and backup systems of Knowledge generation and management MIS to prevent data loss in the event of natural disasters (such as high temperature, floods, etc.) and man-made disasters.

59. **Citizen Engagement.** The Project will engage with citizens throughout its life cycle to ensure that stakeholders and beneficiaries can provide feedback on design and implementation, and that feedback is integrated into project plans where feasible. During preparation, the Project undertook stakeholder consultations, including with vulnerable groups like women and IDPs, to inform project design. The Project will ensure timely dissemination of project documents and information in English and key local languages using multiple platforms (mail, community radio, mobile public address systems) to reach its diverse stakeholders. Citizen engagement indicators have been included in the Results Framework: the Project will undertake participant satisfaction surveys to assess student satisfaction with the training programs under Components 2. Feedback from these surveys will be used to fine-tune the training programs and identify additional support required by students, with a particular focus on vulnerable students. The Stakeholder Engagement Plan (SEP) disclosed on September 4, 2023 also outlines the Project's grievance redress mechanisms, which will include a grievance redress committee that will review and resolve citizen complaints.

Economic and Financial Analysis

60. **A cost-benefit analysis shows that the Project is economically viable.** A cost-benefit analysis was conducted with monetary benefits measured through an anticipated average increase in annual earnings through program participation. The results yield an economically viable investment with a net present value (NPV) of US\$74 million and an internal rate of return (IRR) of 12.9 percent, which is higher than the benchmarking interest rate of 7 percent at the official exchange rate of 55.07 ETB/US\$. The Project is also expected to contribute to private sector development, increases in tax revenues, good quality labor market data, and increased adoption of technology. Thus, the values for IRR and NPV generated are lower bounds as they are based only on quantifiable labor market returns, and do not include the valuation of positive externalities and spillover effects from the increase in education and skills of Ethiopian youth.

61. **Sensitivity analysis shows that the Project is economically justified even after considering alternative exchange rates.** At alternative exchange rates of 80 ETB/US\$ and 110 ETB/US\$, a sensitivity analysis assuming varying levels of

expenditures in ETB (50, 70, and 75 percent) shows that the Project remains economically viable.

Table 1: Sensitivity analysis (different levels of expenditure in ETB)

Sensitivity analysis	IRR (50% expenditure in ETB)	IRR (70% expenditure in ETB)	IRR (75% expenditure in ETB)
Exchange rate: 55.07 ETB/US\$ (no ER change with official rate)	12.9%	12.9%	12.9%
Exchange rate: 80 ETB/US\$	10.0%	9.5%	9.4%
Exchange rate: 110 ETB/ US\$	8.4%	7.6%	7.5%

Source: World Bank 2023.

62. **Economic analysis shows that the Project remains viable and has a high development impact despite the lower local currency equivalent resource availability.** In recent months, the Government has renewed its focus on addressing exchange rate distortions and is working closely with the International Monetary Fund and the World Bank to identify an appropriate exchange rate reform strategy to move towards market-reflective exchange rates. Such a move is likely to require a potentially large devaluation of the Ethiopian Birr, which would increase the local currency costs of imported project materials and labor. This risk is mitigated at any expected level of import content of the Project, which will be settled directly in foreign currency by the World Bank without exchange rate conversions.

63. **To ensure sustainability after Project closure, the future resource or burden sharing responsibility will be considered early in Project implementation.** A strategy will be put in place to build project activities into the Government’s overall functioning including incentives to guarantee continued engagement of the private sector.

B. Fiduciary

(i) Financial Management

64. **A Financial Management (FM) assessment of the Project implementing entities was conducted in accordance with the FM Manual for IPF Operations, reissued on September 7, 2021, effective March 1, 2010; IPF directives and guidelines.** The objective of the assessment was to determine whether the proposed FM arrangements: (a) are capable of correctly and completely recognizing and recording all transactions and balances relating to the Project; (b) would facilitate the preparation of regular, accurate, reliable, and timely financial statements; (c) would safeguard project assets; and (d) would be subject to acceptable auditing arrangements. The assessment builds on knowledge of country FM systems and lessons learnt from active World Bank-financed operations.³⁶ The conclusion of the FM assessment is that the Project’s FM arrangements meet the World Bank’s minimum requirements under Bank Policy and Bank Directive on IPF and FM Manual. An action plan has been developed to mitigate the identified risks.

65. **The Project FM arrangements will be established at MoLS and participating PTCs.** MoLS will assume overall fiduciary responsibility. The Project will prepare a consolidated annual work plan and budget (AWP&B) and obtain a no-objection from the World Bank. The Project funds flow follows the Government’s “channel 2” mechanism, whereby funds will be transferred to the MoLS through a segregated Designated Account to be opened at the National Bank of Ethiopia. Funds from the designated US\$ account will be further transferred into local currency (Birr) account to be held

³⁶ EASTRIP (P163399) and WEDP (P122764)



by MoLS. From the Birr account, MoLS will transfer the funds to separate local-currency bank accounts to be opened at each participating entity. The Project will use a report-based disbursement mechanism using a six-month expenditure forecast for components. Available disbursement methods are described in the Disbursement and Financial Informational Letter (DFIL). The Project will have an FM manual as part of the PIM. A separate manual to guide implementation and fiduciary requirements of component 2 activities will be prepared. The Project will submit quarterly interim unaudited financial reports (IFRs) within 60 days of the end of each reporting quarter. The Project will have its accounts/financial statements audited on an annual basis by an independent external auditor acceptable to the World Bank and submit the annual external auditor’s report within six months of the fiscal year end.

(ii) Procurement

66. **Applicable Procurement Procedure.** The Project uses the IPF instrument and hence procurement under the Project will be carried out in accordance with the World Bank’s Procurement Regulations for IPF Borrowers; Procurement in Investment Project Financing for Goods, Works, Non-Consulting, and Consulting Services, dated July 1, 2016, and updated November 2020. Furthermore, the World Bank’s 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 General Conditions of Legal Agreement shall apply. Procurements under the Project include moderately sized consultancy services and goods for institutional strengthening, capacity building and implementation support components of the Project. It also includes low value building renovation works. MoLS, EDI, and the selected PTCs will be responsible for their respective procurements. High value contracts include procurement of machinery and equipment for TVET workshops, ICT equipment, vehicles, and motorcycles. These goods will be procured through the Ministry centrally to take advantage of economies of scale. Detailed selection procedure for Component 2 through a competitive and result-based approach will be provided in the PIM.

67. **Project Procurement Strategy for Development (PPSD), Procurement Plan (PP), and Systematic Tracking of Exchanges in Procurement (STEP).** The PPSD and 18-month PP comprising all the implementing agencies (MoLS and selected PTCs) has been prepared. The PPSD and procurement plan will be updated by the implementing agencies on a regular basis or as required to reflect the actual project implementation needs and forwarded to the World Bank for review and no objection. It is mandatory for all implementing agencies to use STEP which is a web-based online system for procurement planning, processing, monitoring, tracking, contract management, reporting and record keeping. The implementing entities are also required to timely upload all information and documentation in STEP at each stage of the procurement and contract management process as soon as each transaction takes place.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

68. **The Project’s environmental and social risk rating (ESRR) is moderate.** Both ERR and SRR is moderate at the appraisal stage, considering the overall countrywide implementation scope of the Project and related environmental, social health and safety (ESHS) aspects, involving regions categorized under ESS7, the contextual and security risks of the



country, conflict impact areas, and IDP hosting regions.

69. **Environmental risks:** The potential EHS risks and impacts are mainly associated with the upgrading of the selected PTCs to strengthen training programs in priority sectors and procurement and use of modern e-learning technologies/equipment under component 1. In line with this, the potential EHS risks and impacts include pollution due to generation of noise, dusts, solid and liquid wastes and associated disposal issues, fire hazards, and inefficient use of natural resources including energy, water and raw materials related to the civil works of rehabilitating PTCs. Also, there are hazardous wastes including e-waste issues associated with ICT/modern technologies and fuel/oils leakage from vehicles and related pollution of soil, water and air; and occupational health concerns (such as injury/death, fire hazards) related to all components of the Project. There are also potential community health and safety risks and impacts including exposure to project-related pollution, communicable diseases (such as STDs), traffic and road safety risks, and hazardous materials among others as detailed under ESS4. Further, though components 2 and 3 do not have any physical works, any environmental and occupational health considerations related to their activities will be managed through the incorporation of aspects of the ESF/ESSs, WBG General EHS Guidelines and GoE's policies and laws in their terms of references and reviewing draft outputs accordingly in a manner acceptable to the World Bank and the GoE. Overall, the potential EHS risks and impacts of the Project are site specific, mostly temporary, reversible, and mitigated through the application of the World Bank ESF/ESSs and GoE's requirements throughout the Project period.

70. **Social risks:** The Project is expected to have positive social impacts as it targets skills development for employability of unemployed youth, particularly for women and those who are disadvantaged such as IDPs and youth in the emerging regions of the country. The Project promotes increased female participation in a broad range of training options to enable more young women to gain decent jobs. It also intends to benefit the large number of IDPs who are escaping conflict from different parts of the country. The negative social risks of the Project are associated with the potential risks of inadequate inclusion of vulnerable or marginalized populations and Historically Underserved Peoples, PWDs, IDPs, etc., in training and/or employment opportunities. There is potential risk of sexual exploitation and abuse (SEA) or sexual harassment (SH) of women and/or girls in the TVETs, small businesses or small-scale civil works. Other anticipated adverse social impacts relate to weak stakeholder consultation and participation/engagement due to the instability in the country, lack of a functional grievance mechanism, potential risks related to workforce and community health and safety aspects and limited experience of MoLS in environmental and social risk management, particularly with ESF requirements.

71. **Environmental and social risk management:** The Project has prepared and consulted upon ESF instruments including Environment and Social Commitment Plan (ESCP), SEP, Environment and Social Management Framework (ESMF) including Labor Management Procedures and Social Assessment (GBV/SEA/SH action plan annexed) that comprise proportionate mitigation measures to address the potential environmental and social risks and impacts. These ESF instruments have been disclosed on the MoLS website on September 11, 2023. A Security Risk Assessment and Management Plan has also been prepared to mitigate security risks. The ESCP aims to ensure that the required materials measures and actions and the ESF instruments are in place as part of the Project design and will be implemented throughout the Project period to address and mitigate risks and impacts identified under relevant ESSs. Also, site-specific ESSs instruments (e.g., Environmental and Social Impact Assessments/Environmental and Social Management Plans (ESMPs) for subprojects) will be prepared, implemented, and monitored during project implementation as per the ESMF & other relevant ESF instruments. The client will also require civil works contractors for rehabilitation and upgrading of PTC to prepare Construction-ESMPs (C-ESMPs) satisfactory to the World Bank and Government and enforce their implementation accordingly.



V. GRIEVANCE REDRESS SERVICES

72. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank'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 Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

VI. KEY RISKS

73. **The overall risk of the proposed Project is substantial,** due to the complex macroeconomic situation of the country and the institutional capacity weaknesses including fiduciary risk in the sector.

74. **Political and governance risk is substantial.** Ethiopia has recently gone through a historic transition defined by the opening up of political space while facing challenges from social and political unrest and armed conflict. Analyses show a complex conflict system interweaving old and new grievances, local and national politics, neglect, frustration of the younger generation, climate change and land degradation, rural-urban migration, and other factors, with a history of conflicts being framed in ethnic terms.³⁷ The conflict that broke out in November 2020 in different parts of the country, especially in Tigray, Amhara, Afar and parts of Oromia, left the region in ruins with many Tigrayans displaced and struggling to obtain basic needs until the ceasefire agreement in November 2022. Sporadic conflicts continue in different parts of the country. While humanitarian access is starting to improve, full access to the affected regions for service delivery remains a concern, security is still volatile and local authorities are slowly resuming their services. The Project can provide positive externalities by giving avenues to those displaced to attain the skills to find gainful employment and stability in their livelihoods mitigating some of these political risks. The Project design ensures increased access to training opportunities across the country and aims to focus on those displaced by the conflict. In addition, to mitigate security risks, detailed security risk assessments will be undertaken and plans prepared to mitigate security risks.

75. **Macroeconomic risk is substantial.** High external and domestic debt, severe foreign exchange shortages, rising inflation, and declining trends in tax to GDP ratio escalate risks linked to the macroeconomic situation of the country. While the GoE is struggling to regain its pre-pandemic performance, the recent conflict and the subsequent internal displacement of people have shrunk the space for service delivery expenditures including allocations to TVET. To mitigate these risks, the Project aims to promote partnership with enterprises for cooperative training models and contracting private training providers, who are generally more cost effective, for short term training of youth. Residual risk, however, is still substantial given the impact of the macroeconomic situation on the ability of both the public and private sector to

³⁷ World Bank. 2020. Inclusive Development in Local Areas of Violence and IDP Hosting Areas: Risks and Opportunities. Washington, D.C. See also Armed Conflict Location and Event Data Project. 2021. 2021 Conflict Dimensions in Ethiopia.



invest in the TVET sector.

76. **Institutional capacity for implementation and sustainability risk is substantial.** The Project aims to introduce several innovations including a much larger role for industry and the private sector in training delivery. It also proposes to bring together several actors in the sector to reduce the current fragmentation in the sector. At the same time, it will introduce a new mechanism that contracts training providers on a performance basis to offer training programs to youth. These reforms are new for the sector and MoLS may not have the institutional capacity to effectively implement these reforms. However, the new structure of MoLS, which is conducive to linkages with the labor market and hence employers, is expected to promote the achievement of the Project's objectives of improved employability. In addition, the Project will finance technical support for the new Ministry to strengthen its governance, accountability and coordination structures for better management of the institutions under its purview to mitigate the risk of weak institutional capacity. The Project will involve the private sector at various levels, such as in the PSC at the Ministry level and Industry Advisory Boards at the institute level. This involvement will be critical to improve relevance of training, however sustainability of these efforts may be challenged after the Project duration. To mitigate this risk, the Project aims to entrench these reforms in the sector governance structures during implementation to promote sustainability.

77. **Fiduciary risk is substantial.** The overall fiduciary risk of the Project is substantial given substantial FM risk and moderate procurement management capacity of the Implementing Agencies. The FM assessment conducted by the World Bank noted weaknesses/risks related to delays in AWP&B, low budget utilizations, low staffing capacity, noncompliance with government procurement policies and procedures, weak internal control over assets management, weak internal audit capacity, and PTCs lacking experience in managing World Bank financed projects. The conflict situation in the country may also hinder the smooth implementation of the Project FM. To mitigate these risks, an action plan has been developed. The Plan includes submission of the draft AWP&B well ahead of the submission of the Project budget to the MoF for parliamentary approval; strengthening budget utilization monitoring including the use of variance analysis reporting on quarterly IFRs; recruiting/assigning dedicated project FM staff at all implementing entities; and increasing the supervisory capacity of the finance unit at MoLS; developing the Project FM manual that outlines the Project internal control systems in view of identified FM risks; additional staffing to internal audit unit and availing of budget needed for reviews; and providing capacity building trainings to FM staff including internal audit units. A separate manual will be prepared detailing implementation and fiduciary requirements of managing training providers under Component 2.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Ethiopia

Ethiopia Education and Skills for Employability Project

Project Development Objectives(s)

The Project Development Objective is to improve employment outcomes of the TVET system of Ethiopia with a focus on women and marginalized groups.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Skills for employment				
Employment rate of graduates of project-supported training programs (Percentage)		0.00	65.00	70.00
Employment rate of female graduates of project-supported training programs (Percentage)		0.00	65.00	70.00
Employment rate of IDP graduates of project-supported training programs (Percentage)		0.00	60.00	70.00
Employment rate of PWD graduates of project-supported training programs (Percentage)		0.00	60.00	70.00
Number of students who successfully complete project-supported training programs (Number)		0.00	60,000.00	200,000.00
Of which, female (Percentage)		0.00	50.00	50.00



Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
of which, youth from rural areas (Percentage)		0.00	40.00	40.00
of which, youth with disabilities (Percentage)		0.00	8.00	8.00
of which, IDPs (Percentage)		0.00	20.00	20.00
of which, green skills (Percentage)		0.00	35.00	35.00
Number of Sector Skills Councils established (Number)		0.00	2.00	5.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Component 1: Strengthening public polytechnics for improved labor market outcomes				
Number of Industry Advisory Boards with employer participation formed (Number)		0.00	24.00	24.00
Number of new/updated training courses developed (Number)		0.00	85.00	150.00
Of which, digital programs (Percentage)		0.00	15.00	15.00
of which, green skills programs (Percentage)		0.00	15.00	15.00
Number of trainers trained (Number)		0.00	300.00	500.00
Number of PTCs where entrepreneurship training program introduced (Number)		0.00	18.00	24.00
Number of industry partnership agreements established (Number)		0.00	80.00	100.00
Number of youth enrolled in upgraded PTCs		0.00	60,000.00	150,000.00



Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
(Number)				
Employers' satisfaction level with the skills of graduates from project-supported training program (Percentage)		0.00		80.00
Number of SIPs approved and implemented (Number)		0.00	24.00	24.00
Number of trainers who improve their pedagogical skills (Number)		0.00	300.00	450.00
Component 2: Skills for Jobs				
Number of youth enrolled in supported short term training programs (Number)		0.00	65,000.00	100,000.00
of which, female (Number)		0.00		55,000.00
Percentage of youth who complete training (Percentage)		0.00	85.00	85.00
Beneficiary feedback survey conducted (Yes/No)		No	Yes	Yes
Component 3: System strengthening				
SMIS operational (Yes/No)		No	Yes	Yes

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Employment rate of graduates of project-supported training programs	This indicator will measure the employment rate of graduates of the training	Annual starting from year 2 of the	Tracer study reports	The DU will consolidate information from tracer study reports of the	MoLS



	programs supported by the project. It will include those in formal employment and self-employment within 6-12 months of completion of training.	Project.		various programs supported by the project.	
Employment rate of female graduates of project-supported training programs	This supplemental indicator will measure the employment rate of female graduates of the training programs supported by the Project.	Annual beginning from year 2 of the Project.	Tracer survey reports	DU will collate data from tracer studies conducted by the various supported institutions	MoLS
Employment rate of IDP graduates of project-supported training programs	This subindicator will measure the employment outcomes of IDPs that participate in project supported training.	Annual starting from year 2 of the Project.	Tracer survey reports	DU will collate data from tracer studies conducted by the various supported institutions	MoLS
Employment rate of PWD graduates of project-supported training programs	This subindicator will measure the employment rate of PWD graduates of the training programs supported by the Project.	Annual starting from year 2 of the Project.	Tracer survey reports	DU will collate data from tracer studies conducted by the various supported institutions	MoLS
Number of students who successfully complete project-supported training programs	This indicator will measure the number of youth enrolled in training programs supported by the project who complete the program and receive certification.	Annual	DU monitoring reports	DU will consolidate information from the various training providers supported by the Project.	MoLS



Of which, female	The sub-indicator will measure the share of female students enrolled in training programs supported by the who complete the training.	Annual	DU monitoring reports	DU will collect and consolidate data from supported training providers.	MoLS
of which, youth from rural areas	This sub-indicator will measure the share of youth residing in rural areas who complete training programs supported by the project.	Annual	DU monitoring reports	DU will collect and consolidate data from the various training providers supported by the project.	MoLS
of which, youth with disabilities	This sub-indicator will measure the share of youth with disabilities who complete training programs supported by the project.	Annual	DU monitoring reports	DU will collect and consolidate data from the various training providers supported by the project.	MoLS
of which, IDPs	This sub-indicator will measure the share of youth who are internally displaced who complete training programs supported by the project.	Annual	DU monitoring reports	DU will collect and consolidate data from the various training providers supported by the project.	MoLS
of which, green skills	This sub-indicator will measure the share of youth who complete green skills training programs supported by the project.	Annual	DU Monitoring reports	DU will collect and consolidate data from the various training providers supported by the project.	MoLS
Number of Sector Skills Councils established	This indicator will measure the number of SSCs that are	Annual	DU monitoring	DU will report this data.	MoLS



	operational.		reports		
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Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of Industry Advisory Boards with employer participation formed	This indicator will measure the number of supported PTCs that successfully establish and maintain IABs which include at least 50 percent employer representation	Annual	DU monitoring reports	DU will collect information from the supported PTCs	MoLS
Number of new/updated training courses developed	This indicator will measure the number of new training programs developed in partnership with industry and offered at the supported PTCs.	Annual	DU monitoring reports	DU will collect this information from the supported PTCs	MoLS
Of which, digital programs	This indicator will measure the percentage of new digital skills courses developed and offered at supported PTCs	Annual	DU monitoring reports	DU will collect information from supported PTCs	MoLS
of which, green skills programs	This indicator will measure the percentage of green skills training programs developed and offered at supported PTCs	Annual	DU monitoring reports	DU will collect this information from the supported PTCs	MoLS



Number of trainers trained	This indicator will measure the number of teaching staff of the supported PTCs who complete training programs to improve their technical and pedagogical skills.	Annual	DU monitoring reports	DU will collect this information from the supported PTCs	MoLS
Number of PTCs where entrepreneurship training program introduced	The indicators will record the number of PTCs supported by Component 1 that introduce an entrepreneurship training program	Annual	DU Monitoring reports	DU will collect this data on a biannual basis from the supported PTCs	MoLS
Number of industry partnership agreements established	This indicator measures the number of partnership agreements with industry/employers signed for cooperative training, industry attachments for staff and financial contributions.	Annual	DU monitoring reports	DU will collect this information from the supported PTCs on a biannual basis and report.	MoLS
Number of youth enrolled in upgraded PTCs	The indicator will measure the number of students who enroll in the supported PTCs	Annual	DU monitoring reports	DU will collect data from the supported PTCs on a biannual basis.	MoLS
Employers' satisfaction level with the skills of graduates from project-supported training program	This indicator will measure the percentage of surveyed employers who are satisfied with the skills attainment of the graduates of PTCs supported by the project.	Once at the end of the project	Employer satisfaction survey reports	DU will consolidate data from the employer satisfaction surveys conducted by the supported PTCs.	MoLS



Number of SIPs approved and implemented	This indicator will track the approval and implementation of the SIPs of the PTCs selected for support under component 1 of the Project.	Annual	DU monitoring reports	DU will collect and report this data.	MoLS
Number of trainers who improve their pedagogical skills	This indicator will measure the number of teachers who show improvement in their pedagogical skills.	Annual	DU monitoring reports	DU will conduct annual assessment of teachers teaching the participating PTCs to measure their pedagogical skills.	MoLS
Number of youth enrolled in supported short term training programs	This indicator will measure the number of youth enrolled in training programs supported by the component	Annual starting in year 2 of the Project	EDI monitoring reports	EDI will consolidate the data from the supported training providers. The data will be verified on a sample basis by an independent third party.	EDI
of which, female					
Percentage of youth who complete training	This indicator will measure the percentage of youth enrolled in short term training programs supported by the component who complete the training successfully.	Annual	EDI monitoring reports	EDI will collect the data from the supported training providers. An independent third party will verify the data on a sample basis.	EDI



Beneficiary feedback survey conducted	Survey of trainees that enroll in the short term training programs supported by the component conducted.	Annual starting from year 2 of the Project.	Beneficiary feedback survey reports	Survey of representative sample of youth enrolled in short term training programs supported by the component.	EDI
SMIS operational	This indicator will measure if an SMIS is developed and operational.	One-time	DU reports	DU will report on the progress toward functionality of the SMIS	MoLS

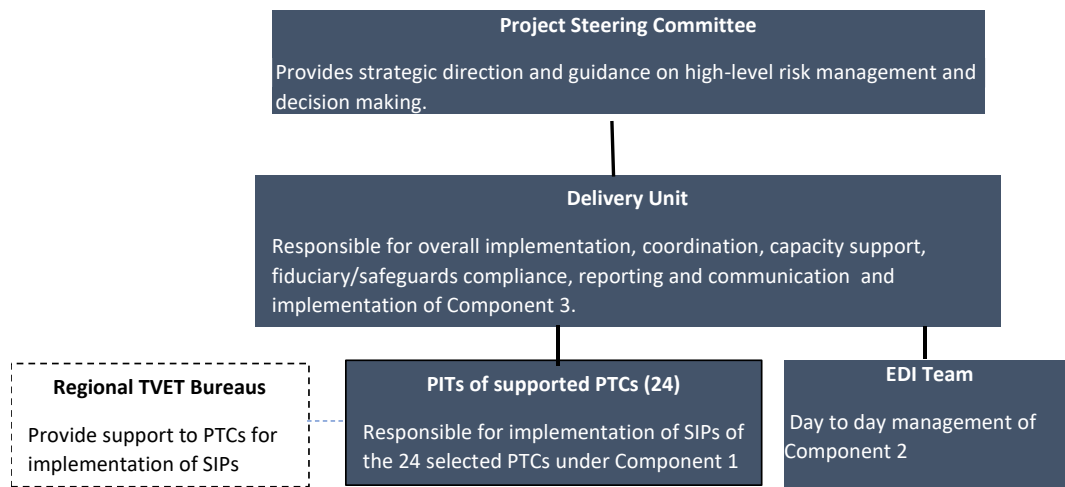


ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Ethiopia
Ethiopia Education and Skills for Employability Project

- 1. The Project will be implemented by MoLS. MoLS was formed as part of the Government restructuring in 2021 and has taken over the powers and functions of the former Ministry of Labor and Social Affairs, Jobs Creation Commission and the Federal Urban Jobs Creation and Food Security Agency. In addition, MoLS oversees TVET which was under the former Ministry of Science and Higher Education. The Ministry has three Directorates, for Labor, Employment and Skills, each led by a State Minister.
2. A PSC, chaired by the MoLS Minister, will be established to provide overall guidance for project implementation. The PSC will provide strategic direction and guidance on high-level risk management and decision-making on project objectives. This inclusive body will be crucial for promoting dialogue, consensus-building, and joint decision-making on key aspects of the TVET system. The PSC will also provide a platform for collaboration, management, troubleshooting and technical support for implementation of the Project. The PSC will meet at least twice a year.
3. MoLS will establish a Delivery Unit (DU) within MoLS that will be responsible for coordinating implementation of the components. The DU will coordinate implementation, build capacity of Ministry teams for implementation, monitor and ensure compliance with the fiduciary and environment and social requirements for the Project, collate data for the project results framework and prepare overall reports on project performance, coordinate PSC meetings and manage communications for the Project. The DU will also be responsible for implementation of Component 3. Project Implementation Teams (PITs) will be set up at each of the selected PTCs under Component 1 and under EDI for Component 2. Figure A1 illustrates the implementing arrangements for the Project.

Figure A1: Project Implementing Arrangements



- 4. Regional Skills Bureaus will work closely with MoLS for the implementation of project activities. All the selected PTCs are managed by their respective regional governments. Regional TVET Bureaus will work closely with the PITs of the PTCs and the DU to support implementation in polytechnics in their jurisdictions that will receive support under



Component 1 of the Project. They will also participate in capacity building for improving the management and employer linkages of their TVET institutions. Details of the implementing arrangements for each component are provided below.

Component 1

5. MoLS established independent technical committees to support the selection of the PTCs that will receive support from Component 1. The World Bank provided technical support in developing a standard proposal template and selection criteria used to shortlist the PTCs and organized an orientation session to guide the preparation of the proposals. The technical committees conducted validation field visits to inform the selection of the 24 PTCs in coordination with Regional TVET Bureaus.

6. The selected PTCs will be responsible for implementing their SIPs. Each polytechnic college will establish a PIT for planning and implementation of the approved SIPs, based on core functions including management, technical, industry liaison officer, fiduciary, ESF, and other requirements as assessed and recommended by the World Bank and agreed with the counterparts. The institute-level PITs will work closely with the management of the host polytechnic colleges.

Component 2

7. The governance structure for Component 2 will consist of three bodies: (i) Steering Committee, chaired by MoLS Senior Management; (ii) EDI, which reports to MoLS, for day-to-day management; and (iii) Advisory Group (Figure A2). The Steering Committee will be responsible for oversight, effective use of resources, and approval of strategy and annual plans. EDI's responsibilities will be to manage each call for proposals (including market making; screening and selection; training provision; and monitoring) – management, communication, support and assessment and third-party monitoring. EDI will also serve an additional role of training provision for the entrepreneurship window. The Advisory Group will be a forum for stakeholders that advises the Steering Committee. Both the Steering Committee and Advisory Group will include representatives from the private sector to ensure that SJDF will be demand-driven. The detailed governance structure is included below.

8. EDI will develop a robust reporting and verification mechanism using independent third-party monitors to review result outcomes including employment outcomes, training provision, and training quality. Monitoring efforts performed by third-party organizations will determine the payment level according to the fulfillment of the targets agreed upon before implementation and will be strongly communicated with participating training providers. Monitoring of all short-term training quality and milestones will be carried out through a combination of Management Information System (MIS) and physical inspection-based monitoring.

Component 3

9. This component will be implemented by the DU established at MoLS in coordination with the Regional TVET Bureaus. Currently, information from tracer studies is captured by the TVET system under the skills wing of MoLS. Labor market information is collected at the woreda level (the one-stop-shop centers) and reported to the regions and the employment division of MoLS at the Federal level. Having two separate systems has led to information asymmetry challenges. Creating an integrated system is critical for aligning skills supply and labor market demands.



Financial Management Arrangements

10. FM assessment of MoLS and PTCs was carried out for the Project in accordance with the World Bank Policy and Bank Directive on IPF, the Financial Management Manual for World Bank IPF Operations Effective on March 1, 2010, and reissued on September 7, 2021. The World Bank conducted the assessment building on the lessons learnt from the currently ongoing World Bank financed projects, EASTRIP (P163399) and WEDP (P122654), implemented by MoLS in coordination with regional flagship TVET colleges and EDI respectively. The objective of the assessment was to determine whether the entities implementing World Bank-financed projects have acceptable FM arrangements which are capable of capturing transactions and balances accurately and completely, supporting the preparation of regular and reliable financial statements, safeguarding the Project's assets, and are subject to auditing arrangements acceptable to the World Bank. The FM arrangements include the entity's system of planning and budgeting, accounting, internal controls, funds flow, financial reporting, and auditing.

11. *FM risk and mitigation measures.* The Project will inherit the various strengths of the country's PFM system. Several aspects of the PFM system function well, such as the budget process, budget classification system, compliance with financial regulations and satisfactory Government's internal control system. Several reforms have been undertaken to improve the country's PFM systems through the Government's PFM strategy and the support of development partners (including the recently closed PFM project - P150922). In addition, MoLS will benefit from prior experience in implementing World Bank financed projects. However, there are gaps noted which include: delays in AWP&B, low budget utilizations; low staffing capacity, noncompliance with government procurement policies and procedures, weak internal control over assets management, weak internal audit capacity, and PTCs lacking experiences to manage World Bank financed projects. An added risk to these is the impact of the conflict situation in the country which might hinder the smooth implementation of the Project, including on FM, especially for PTCs in regions. The risk mitigation measures include submission of the draft AWP&B well ahead of the submission of the project budget to the MoF for parliamentary approval; strengthening budget utilization monitoring including the use of variance analysis reporting on quarterly IFRs; recruiting/assigning dedicated project FM staff at all implementing entities; and increasing the supervisory capacity of the finance unit at MoLS; developing the Project FM manual and a separate manual for Component 2 that outlines the project internal control systems in view of identified FM risks; additional staffing to internal audit unit and availing of budget needed for reviews; and providing capacity building trainings to FM staff including internal audit units. The FM risk for the project, after implementing the proposed mitigating measures, is rated as **substantial**. Action plans that encompass mitigation measures have been prepared.

12. *Budget preparation and control:* The budgeting process of federal public bodies including MoLS follows Federal GoE's budgeting procedures and calendar.³⁸ Regions and PTCs follow similar budgeting protocols as the federal government. MoLS uses Integrated Financial Management Information System (IFMIS), the PTCs use Integrated Budget and Expenditure System (IBEX) to record and monitor their budget. Both IFMIS and IBEX has budget control module, and no expenditure can be made without having budget. Monthly budget execution reports are prepared directly from the system. Transaction level budget tracking and control, in these entities, are either using IBEX or excel spreadsheet or manual control ledger cards to track availability of budget.

³⁸ The federal budgeting process (fiscal year running from July 8 to July 7) usually starts by issuing the Budget Call Circular (BCC) to the budgetary units. Based on the BCC and the budget manual, the budgetary units prepare their budgets in line with the budget ceilings and submit these to MoF within six weeks following the budget call. The budget is prepared based on the ceiling received annually from MoF, reviewed at first by MoF and then by Council of Ministers. The final recommended draft federal budget is sent to parliament at least one month before the start of the new year and is expected to be cleared at the latest by end of the fiscal year. Budgetary units in regions prepare their budgets and submit these to their respective bureau of finance (BoF) for approval by the Regional Councils



13. The Project will follow the GoE's budgeting procedure and calendar. The federal level and the regional level implementing entities will prepare AWP&B for activities that will be undertaken during a financial year and submit the national consolidated AWP&B to the World Bank for 'No Objection' and then to the PSC for their review and approval. The Project annual budget will be proclaimed under MoLS. The Project will have budget monitoring system both at transaction and reporting level. At the reporting level, the budget utilization of the project will be monitored at least quarterly. The significant budget variances will be adequately explained and justified through quarterly IFRs. The project FM manual will outline the AWP&B preparation and approval calendars, budget monitoring and control procedures.

14. **Accounting:** The GoE follows a double entry bookkeeping system and modified cash basis of accounting, as documented in the Government's Accounting Manual and guidelines. All assessed implementing entities apply the Government's accounting policies and procedures. These policies (modified cash basis) and procedures will apply to the Project. However, to ensure smooth implementation of the Project, as part of the PIM, the project will have its own FM manual which will largely follow the government accounting manual. Separate sets of accounts (ledgers) for the Project will be maintained at all implementing entities. In addition, the Project will develop charts of accounts designed that capture project expenditures at component, subcomponent, and activity levels. The implementing entities and accounting centers of the Project are MoLS and the selected 24 PTCs. Overall responsibility of the Project financial management and coordination rests with MoLS.

15. **FM Staffing:** Entities assessed have appropriate organizational structure based on public service institutional arrangements. Most of the approved structures were filled at MoLS, with some positions still vacant. All the staff have the relevant educational background and experience that fulfills the minimum requirements in the civil service HR manual. The assessed PTCs have proper organizational structures, with almost all positions in the finance departments staffed. However, it is noted that all PTCs lack previous experience in managing World Bank financed projects. For the Project, all implementing entities will have at least one dedicated project accountant recruited/assigned within four months of project effectiveness. Considering the weak capacity and lack of World Bank financed projects management experiences, each participating PTC will have at least one experienced/competent accountant recruited from the project resources. Given the coordination and FM oversight role of the national project coordination under MoLS, the project will recruit additional FM specialist based at MoLS. The Project will plan and provide trainings for FM staff including internal auditors.

16. **Internal Control:** The Government internal control procedures are incorporated in the financial administration proclamation, regulation, directives, and various manuals. In the assessed entities, there is generally adequate segregation of duties assisted by IFMIS which has inbuilt controls procedure with satisfactory segregation of duties /validation and authorization/ in the payment processing cycle. Adequate procedures of authorization, recording, and custody controls is observed for payments. Up to date bank reconciliations are prepared monthly at the assessed entities. While control over property management at MoLS is handled with IFMIS, the asset management module is not fully functional. A key issue noted is that MoLS's external audit report revealed significant internal control weaknesses over fixed asset management.³⁹ The World Bank financed projects' internal control procedures are robust but inter fund borrowing of Project resources to finance MoLS's other activities was noted at EASTRIP which should be avoided in future. The proposed Project will adhere to internal control policies and procedures of the Government. Additionally, a project FM manual will be developed which outlines Project specific internal control arrangements.

17. **Internal audit:** Most of the assessed PBs have internal audits responsible for the review and internal control

³⁹ where fixed assets of entities dissolved to form MoLS two years back have not yet been compiled into one registry.



oversight of entity's resources. At Federal level, the Inspection Directorate of MoF oversees the internal audit function across all budget institutions. At subnational level of government- internal audits are functionally and administratively accountable to the heads of PBs. The internal audit unit at PTCs is structured to directly report to the college dean. Out of the seven auditors' positions in the approved structure of MoLS, only five positions have been filled. Some PTCs lack internal audit units. As a result, the projects under these PTCs currently lack internal audit oversight support. Most internal auditors lack adequate capacity. MoLS internal audit unit has not audited World Bank financed project although it is planned to do so in their annual workplan. Copies of internal audit reports shared from the assessed PTCs indicate some audit quality issues.

18. The internal audit units at all levels of implementation will incorporate the Project audit in their annual internal audit plan and review the Project's books regularly and produce separate audit report or include in the consolidated entity audit reports. Regional finance bureaus internal audit units will continue to provide internal audit oversight support to PTCs under their responsibilities. The MoLS will assess its internal audit capacity and consider recruitment of a dedicated project internal auditor based at the DU. Training will be provided to the internal audit units on the project. The Project will allocate resources to support the project internal audit activities and strengthen the capacities.

19. *Fraud and Corruption.* All implementing entities are expected to adhere to the World Bank Anti-Corruption Guidelines as outlined under the World Bank's Policy and Procedure for IPF operations. The possibility of circumventing the internal control system with colluding practices such as bribes, abuse of administrative positions, and misprocurement is a critical issue and may include: (a) late submission of supporting documents; (b) poor filing and records; (c) lack of system integration; (d) lack of budget discipline; and (e) unauthorized commitment to suppliers, bypassing budget and expenses vetting procedure, among others. These are mitigated as follows: (a) inclusion of specific aspects on corruption ISA 240 in the audit TOR; (b) FM procedures (as part of the FM manual) approved and in operation for the Program; (c) strong FM arrangements (including qualified project accountants in the implementing entities; (d) periodic IFRs including budget execution and monitoring; and (e) separate accounts, internal audit, and external audit reviews.

20. **Fund flow and disbursement arrangements for the Project:** The Project will follow channel 2 fund flow mechanism whereby Project funds will flow from IDA to MoLS by deposit into a separate US\$ Designated Account to be opened at the National Bank of Ethiopia (NBE) managed by MoLS. Funds from the designated US\$ account will be further transferred into local currency (Birr) account to be held by MoLS. From the Birr account, MoLS will transfer the funds to separate local-currency bank accounts to be opened at each participating entity (PTCs). All disbursement methods (Advance to the Designated Account, reimbursement, special commitment, and direct payment) are available to the Project. For Advance to Designated Account and reimbursement methods, a "report-based disbursement" will be used based on six months expenditure forecast for components/subcomponents included to Interim Financial Reports (IFRs). Disbursements from IDA to MoLS and to other entities is based on an approved budget based on the annual work plan and budget and rolling cash forecast in a timely, orderly, and predictable manner. The disbursement arrangements are detailed in the project Disbursement and Financial Report Letter.

21. With respect to Component 2, a Manual will be developed before the first disbursement is made to the training providers (Eligible Participating Institutions (EPIs)). This Manual will provide detailed guidelines on overall management and administration of Component 2 including Financial Management arrangements/procedures/aspects. The EPIs will be selected competitively and Performance Based Payment Agreements will be entered into. Payments to the EPIs will be based on milestones to be included in the agreement. MoLS will report these payments as expenditures in its IFR using a template provided in the Project's IFR. Further fiduciary monitoring of the EPIs can be done by the government as applicable.



22. **Financial reporting for the proposed Project:** Quarterly Interim Financial Reports (IFRs) will be required for the project. Each implementing entity will prepare their own report and MoLS/DU will consolidate and submit to the World Bank quarterly within 60 days from the end of each quarter. The format and content of the IFR was agreed between the World Bank and MoLS during negotiation. The project will also prepare the annual Project Financial Statement (PFS) within three months of the end of the fiscal year and submits to the project’s external auditors.

23. **External audit arrangement for the Project:** Annual Project Audit report (audited Project financial statements including audit opinion and Management Letter) will be submitted to the World Bank within 6 months of the end of the fiscal year in a form and content satisfactory to the World Bank. MoLS will be responsible for having the annual PFS audited annually. The audit will be carried out by Office of the Federal Auditor General (OFAG) or a qualified auditor acceptable to the World Bank. The auditor will be appointed within six months of Project effectiveness date. The audit will be carried out in accordance with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC). The audit ToR for the Project will be agreed with the World Bank before appointment of the external auditor. The audited financial statements will be publicly disclosed in a manner acceptable to the World Bank.

24. **Financial Management Action Plan.** Table A1 below shows the FM action plan for the Project based on the risks identified in the FM assessment.

Table A1: Financial Management Action Plan

	Action	Date Due By	Responsible
1	Develop FM manual as part of the PIM of the project	Prior to disbursement	MoLS
2	<p>Budgeting</p> <p>a) The project Annual Work Plan and Budget is finalized and submitted to the World Bank for no objection not later than March 31 of each year.</p> <p>b) Ensure that project budgets are proclaimed as part of MoLS budget.</p> <p>c) Maintaining budget tracking record to ensure transaction level budget control,</p> <p>d) Produce periodic variance reports along with explanation for major variances</p>	<p>a) Annually</p> <p>b) Annually</p> <p>c) During implementation</p> <p>d) Ongoing (Monthly & quarterly)</p>	<p>(a-d)</p> <p>MoLS/DU</p>
3	<p>Accounting and staffing arrangement.</p> <p>a) Prepare a manual for Component 2 (including fiduciary aspects)</p> <p>b) Set up separate sets of accounts for the projects using computerized accounting system.</p> <p>c) Develop a chart of accounts (CoAs), mapped to government CoAs, suitable for the project.</p> <p>d) Finalize the recruitment of the following project staff.</p> <p>i. Two accounts/FMS at DU</p> <p>ii. A minimum of one accountant at each PTC.</p> <p>iii. Assign/recruit Project Internal auditor at DU.</p> <p>e) Provide building training for FM staff including internal auditors</p>	<p>a) Before disbursement is made under Component 2</p> <p>b) Ongoing and FM Manual</p> <p>c) Within four months of effectiveness</p> <p>d) After recruitment and annually.</p>	<p>(a-e)</p> <p>MoLS/DU/PT Cs</p>
4	<p>Internal audit</p> <p>Internal auditors at all implementing entities to include the project in their annual work plan and conducted project audit at least semi-annually;</p>	Ongoing during project implementation	MoLS/DU & All other implementing entities
5	IFR/Report issues		



	Action	Date Due By	Responsible
	<ul style="list-style-type: none"> a) Interim Financial Reports (IFRs) will be prepared based on agreed formats and submitted to the World Bank quarterly. b) Prepare and submit annual financial statement for external audit. 	<ul style="list-style-type: none"> a) Within 45 days of the end of quarter b) Within 3 months of the year end 	<ul style="list-style-type: none"> a) MoLS/D U b) MoLS/D U
6	Disbursement Ensure readiness to disburse- Opening Designated account; assign signatories/submit ASL	Within one month of the FA sign off	MoLS
7	Project external audit <ul style="list-style-type: none"> a) Agree audit ToR. b) The project will submit audited financial statements and audit report including the management letter. c) Publicly disclose the project audited financial statements in accordance with the World Bank Policy on Access to Information 	<ul style="list-style-type: none"> a) Within six months of the project effectiveness. b) Within 6 months of the end of each fiscal year. c) Within 1 month of submission of the audit report to the World Bank. 	<ul style="list-style-type: none"> a) MoLS& WB b) MoLS/D U c) MoLS/D U

Procurement Arrangements

25. In Ethiopia, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The Proclamation empowers the Federal Public Procurement and Property Administration Authority (FPPAA) as a body responsible for regulation and monitoring public procurement activities of Federal bodies. The regional states and two City administrations do have their own procurement proclamations and directives which are basically drafted using the federal one as a prototype. MOLS and EDI follow the federal and the PTCs follow the regional public procurement procedures. The Federal Government is at last stage of approving amended public procurement proclamation. The Federal public procurement procedures will be used for national tendering fulfilling the provisions provided in paragraph 5.4 of the World Bank’s Procurement Regulations. The project procurement will be carried out in accordance with the Financing Agreement, World Bank’s Procurement Regulations for IPF Borrowers (Procurement in Investment Project Financing – Goods, Works, Non-Consulting and Consulting Services; July 2016, revised November 2017, August 2018 and November 2020) and other relevant documents of the World Bank.

26. The Ethiopia Public Procurement System assessment was conducted from September 2019 to June 2020 using the MAPS methodology and covered the legal, regulatory, and policy framework; institutional framework and management capacity; public procurement operations and market practices; and accountability, integrity, and transparency of the public procurement. The GoE has been piloting an electronic government procurement system since 2021 with nine public agencies participating. In 2023, the system was expanded to 74 federal agencies including those that make major purchases in sectors including agriculture, technology, health, and education.

27. Procurement Capacity Assessment of the Project implementing agencies has been carried out as part of Project preparation. Accordingly, the expected procurement risks and the proposed mitigation measures have been identified and are shown below. The residual project procurement risk is Moderate. The threshold for various procurement categories and market approach and prior/post review thresholds will be indicated in the PIM.



Table A2 Risks and Mitigation Measures

Procurement Risk Description	Proposed Mitigation Measures	Risk owner	Time frame
Lack of capacity of procurement training organizations in the country.	Procurement training organizations will be included in Component 2	MOLS/EDI/PTCs	Project Implementation
The current conflict situation in the country may affect procurement implementation progress.	Use fit-for-purpose procurement flexibility measures.	MOLS/EDI/PTCs/WB	As and when required.
Delays in procurement processing and inadequate contract management due to , lack of institutional capacity, and absence of required skill and number of procurement officers/specialists.	(i) Employ at least one procurement specialist in each implementing agency, who will provide on-the-job training to staff and work under the supervision of the heads of the procurement units. (ii) The World Bank procurement team to provide tailor-made procurement trainings and clinics. (iii) Provide advanced procurement trainings in procurement training institutions such as the Eastern and Southern African Management Institute (ESAMI), Ghana Institute of Procurement and Supply at least for two procurement staff from each of MOLS and EDI, and one procurement staff from each of the 24 PTCs. (iii) Streamline the procurement function of the Project through existing central procurement units in lieu of PIU approach.	MOLS/EDI/PTCs	Within six months of effectiveness of the Project.
Unreliable and Slow internet connection to effectively use STEP for procurement planning, processing and documentation of records.	Provide WIFI(Dongle) facility to the procurement staff to improve the procurement planning, processing and contract management using STEP	All IAs	In the first quarter after Project effectiveness
Loss and/or unauthorized access to procurement records due to poor record management.	Provide record keeping facilities to all procurement staff such as lockable file cabinet and upload the procurement and contract documents in STEP as soon as each transaction takes place.	All IAs	In the first quarter of the project effectiveness
Delay in effecting payment which is as a result of delays in reviewing and approval of deliverables submitted by consultants; inspection for the	The implementing agencies should establish and adhere to business standard to avoid delays in reviewing and approving deliverables, inspection and approval of the delivered goods and completed works.	All IAs	During the contract implementation



Procurement Risk Description	Proposed Mitigation Measures	Risk owner	Time frame
delivered goods, acceptance and commissioning of works constructed.			
Lack of expertise and delay in preparation of technical specifications, ToR, and BOQ.	(i) Engage experienced Federal institutions such as Ministry of Information Technology to provide direct technical support. (ii) Directly contract experienced suppliers such as UN Agencies when justified in exceptional circumstances.	All IAs	As required

Implementation Support Plan

28. **The proposed Implementation Support Plan (ISP) is consistent with the World Bank’s operational guidelines for Investment Project Financing and considers the Project-specific challenges and risks, as defined in the Systematic Operations Risk-Rating Tool.** It is based on mechanisms that would enable enhanced implementation support to the GoE; timely and effective Project monitoring; and guidance on technical, fiduciary, environmental, and social aspects. The ISP would entail technical meetings and implementation support missions; regular technical meetings held via videoconference; field visits, as needed; and M&E. The World Bank’s implementation support would broadly consist of:

- a) Capacity-building activities to strengthen the ability to implement the proposed activities, covering the technical, fiduciary, and environmental and social dimensions;
- b) Provision of technical advice and implementation support geared towards the implementation of activities and attainment of the PDOs and intermediate results indicators;
- c) Ongoing monitoring of implementation progress, including regular review of key outcome and intermediate indicators, and identification of bottlenecks;
- d) Monitoring changes in risks to the Project, identification of appropriate mitigation measures, and compliance with the financing agreements.

29. Technical meetings and semi-annual supervision missions would seek to provide strategic support to assess implementation progress; ensure the continued strategic alignment of the Project to local priorities, especially through continuous engagement with key stakeholders in the education sector and Project beneficiaries; and build Ethiopia’s capacity to evaluate Project progress and ensure achievement of Project results. The World Bank’s support will also include the hiring of specialized consultants for the Project’s technical aspects as needed, including, but not limited to, specialists on SMIS, TVET curriculum and teacher training and impact evaluation design and monitoring.

30. The following table outline key areas for implementation support, which will be adjusted during Project implementation based on progress and rising needs.



Table A3: Main Focus of Implementation Support

Time	Focus	Skills Needed
Year 1	<ul style="list-style-type: none"> • Ensure Project budgeting and allocation • Review staffing of implementing agency • Support preparation, consultation, and publication of Environmental and Social Management instruments • Assist client in formulation of terms of reference and assessment of resources required to implement Project components • Determine TA needs • Monitor Results Framework • Coordination with donors 	<ul style="list-style-type: none"> • Project management, monitoring, and evaluation • Operations and implementation support • Financial management • Procurement management • ESF management
Years 2-4	<ul style="list-style-type: none"> • Monitor Program budgeting and allocation • Monitor Results Framework • Review technical performance • Assess fiduciary performance • Monitor Environment and Social performance • Carry out Mid-Term review to assess the Project’s performance and identify if any changes are needed in the Project’s design • Coordination with donors 	<ul style="list-style-type: none"> • Project management, monitoring, and evaluation • Operations and implementation support • Impact evaluation design • Financial management • Procurement management • ESF management
Year 5	<ul style="list-style-type: none"> • Monitor Project budgeting and allocation • Complete all planned infrastructure works • Monitor Results Framework • Assess technical, fiduciary, and Environment and Social performance • Begin collecting data for the implementation completion and results report in the final 6 months of implementation • Coordination with donors 	<ul style="list-style-type: none"> • Project management, monitoring, and evaluation • Financial management • Procurement management • ESF management