Private Enterprise Programme Ethiopia (PEPE)

Annual Review 2017 (1)

Date started: Business case was approved in September 2012

Date review undertaken: May 2017

Abbreviations & Acronyms

AIG	– Agro-industrial Group – one component of Enterprise Partners
AR	– Annual Review
ARC	– Agricultural Research Centre
BC	– Business Case
CBE	– Commercial Bank of Ethiopia
CTA	– Cotton Textile Apparel
DBE	– Development Bank of Ethiopia
DFID	– Department for International Development
DFS	– Digitial financial services
EP	– Enterprise Partners
ECF	– Ethiopian Competitiveness Facility
EHPEA	– Ethiopian Horticultural Producer Exporters Association
EIB	– European Investment Bank
EIC	– Ethiopian Investment Commission
ETIDI	– Ethiopian Textile Industry Development Institute
FAV	– Fruit and Vegetables
FDI	– foreign direct investment
FG	– Finance Group – one component of Enterprise Partners
GHG	– green house gas
GoE	– Government of Ethiopia
GTP	– (The Government of Ethiopia's) Growth and Transformation Plan
HIPSTER	– Hawassa Industrial Park Sourcing and Training Employees in the Region
IDC	– Italian Development Cooperation
IFC	– International Finance Corporation
IG	– Intervention Guide
IM	– Intervention Manager
JICA	– Japan International Cooperation Agency
LAL	– Leather and Livestock
LIFT	– Land Investment for Transformation
M4P	– making markets work for the poor
M&E	– Monitoring and evaluation
MDI	– Multi-donor initiative for private sector development
MFI	– microfinance institutions
MoI	– Ministry of Industry
MRM	– monitoring and results measurement
MSME	– micro, small and medium enterprise
MTR	– Mid Term Review
NBE	– National Bank of Ethiopia
PBR	– Payment by results
PCAF	– Private Capital Advisory Facility
PEPE	– Private Enterprise Programme Ethiopia
QSR	– Quarterly Sectoral Review
SME	– Small and Medium Enterprises
SMEFP	– Small and Medium Enterprise Finance Project
SRO	– Senior Responsible Owner
VFM	– Value for Money
WEDP	– Women entrepreneurship development project
WEE	– Women's economic empowerment

Annual Review - Summary Sheet

Title: Private Enterprise Programme Ethiopia (PEPE)		
Programme Value: £69,903,424		**Review Date: May 2017**
Programme Code: 202596	**Start Date: Sept 2012**	**End Date: Aug 2020**

Summary of Programme Performance

Year	Jan 2014	Jan 2015	Sep 2015	Sep 2016	May 2017			
Programme Score	B	B	A	A	A			
Risk Rating	M	M	M	Major	Major			

Summary of progress and lessons learnt since last review

This annual review of the Private Enterprise Programme Ethiopia (PEPE) represents an interim review, conducted six months after the last annual review in September 2016 ahead of a larger mid term review (MTR) planned for April 2018. The rationale for this was to change the timing of subsequent annual reviews, and to address some key issues ahead of the mid term review[1].

As such, DFID and the annual review team did not assess Logframe[2] outputs, outcomes and impacts during this interim review as not enough time has elapsed since the last review for any meaningful results to have been captured and reported, but rather looked in-depth at the degree to which (39) recommendations from the previous annual review have been addressed. Many of the recommendations from the most recent annual review in September 2016 were targeted towards programmatic improvements required ahead of PEPE's MTR. The review team also looked at areas of PEPE which had previously not been reviewed in-depth, including the Ethiopian Competitiveness Facility (ECF) strategy and the programme's current approaches to green growth and social inclusion.

Overall PEPE adequately responded to the recommendations, reflected in the overall programme rating of 'A – meeting expectations', though there are still some areas for improvement. An overall summary of main achievements and areas for improvement are provided below.

Overall programme assessment

In terms of overall programme recommendations, the previous annual review provided comments primarily around revisions to the Logframe to simplify and better align the results targets with the programme logic, improved coordination between PEPE components and strengthened value for money (VFM) analysis (e.g. declining cost per job created over time).

First, the review team confirmed that the **Logframe revision** process occurred as planned including participation from DFID, Enterprise Partners (EP) and the evaluation team within two months of the end of the last annual review. This workshop resulted in a series of 'next steps' which have progressed on track.

DFID has done well in establishing a **coordination platform** with monthly meetings attended by all implementing partners during the review period. However, this platform has not been given sufficient direction or a mandate for decision making to avoid duplication and overlaps between components.

[1] DFID and the implementers agreed that it would be preferable to move the review timing from August/October each year to November/January. This better aligns the review period with the Ethiopian Calendar year to ensure more aligned reporting periods with government.
[2] A "log frame" or "logical framework" is a tool used by DFID to monitor progress of a programme. It is a form of results framework. Key outcomes and impact targets for PEPE are the generation of (i) 45,000 jobs, (ii) 65,000 increased incomes and (iii) £284m of investment.

Although this is clearly moving in the right direction, there is still scope to improve the strategic nature of coordination activities.

The review team found that **VFM analysis** could be further strengthened among implementers. EP has made good progress by using VFM data in their quarterly sectoral review (QSR) meetings and other decision making processes. ECF produced some data around VFM but it is unclear how these data are being used to drive decisions. IFC overall has not managed to produce any meaningful VFM metrics nor demonstrate how they have been used for decision making.

In terms of **green growth**[3], EP in particular has taken positive steps to develop a coherent and credible green growth strategy. The tools are innovative and the analysis credible and well-targeted. Green growth is now better embedded within the EP processes and there is a stronger voice for environmental experts within the decision making process. Some further clarity on environmental risk mitigation, for firms that EP is working with would be helpful to ensure reputational risks to both DFID and GoE are identified early and mitigated (post hoc) if necessary. Green growth is not explicitly promoted through ECF nor IFC though it should be.

The review also included an in-depth assessment of **social inclusion** within PEPE. PEPE is in compliance with the International Development (Gender Equality) Act 2014[4], with good progress against overarching impact targets contributing to women's economic empowerment.

- The review found that EP's women's economic empowerment (WEE) is influencing its portfolio. Several of the new interventions benefited from this analysis. But the WEE framework needs to be implemented throughout the project cycle, beyond the design stage of intervention, into implementation and monitoring and evaluation (M&E).
- IFC made limited efforts to integrate WEE in its work to date, though this is somewhat addressed in the second phase proposal, including reports of diagnosis of gender related investment climate constraints, a public private dialogue forum for women owned businesses, etc.
- The ECF's due diligence around WEE is based on a self-disclosure form and a field visit among clients but little active engagement with firms or beneficiaries on the issue, though sex disaggregated data are reported wherever possible.

Overall the social inclusion analysis suggests that more work needs to be done on broader social inclusion aspects, including addressing barriers such as vulnerability, geography, disability, language etc. This includes the use of social impact assessments and social exclusion analysis for example. This needs to be done in a pragmatic and proportionate manner, considering tradeoffs for prioritising these considerations over the other objectives of the programme. This should be revisited at the MTR to ensure that social inclusion is responsibly integrated across the programme.

Individual component assessment

In terms of the individual programme components, the review team assessed that **Enterprise Partners (EP)**, the largest component by contract value, largely responded to recommendations in the previous six month period. For instance, EP completed market and sector strategies for cotton-textile-apparel (CTA), livestock and leather (LAL) and fruit and vegetables (FAV) and demonstrated improvements in their portfolio over time responding to the main principles of making markets work for the poor (M4P)[5]. However, there are still some concerns in terms of staff strengthening and the breadth of interventions addressing the many critical constraints to growth in these sectors, particularly in FAV .

[3] Defined in DFID's Business Case for PEPE as "Low carbon, climate-resilient and resource efficient (land, water, energy) growth".
[4] http://www.legislation.gov.uk/ukpga/2014/9/pdfs/ukpga_20140009_en.pdf
[5] M4P is a development methodology which aims to deliver large-scale, sustained improvements in people's lives by utilising local systems and actors, and facilitating change in those systems and actors to improve outcomes.

Strong improvements were also noted in instilling a culture of data use to inform decisions within EP, with notable achievements made in the use of QSRs as an initiative to create the critical space for reflection and adaptation of interventions.

It was felt by the review team that **ECF** is highly valued by recipient firms, that the support offers good value for money and impact in terms of enhancing firm competitiveness. There are, however, a number of weaknesses in its current structure that could be addressed to enhance its strategic impact. These include weak social and environmental risk management, limited support under pilot window four (import substitution), and challenges with the inaccessibility of ECF to firms contrained by a lack of working capital. As ECF's current funding ends in March 2018 and a recapitalisation of the facility is under discussion by DFID, this provides a good opportunity to discuss how a redesign of ECF in a second phase could address some of these weaknesses.

The review included limited recommendations specifically for the **IFC** though overall these were met with the exception of one focused on monitoring of the actual implementation of regulatory and policy changes. No evidence that the recommended assessment was conducted or documented were submitted as part of this review, though the IFC team were able to demonstrate some broader thinking and evidence suggesting that they have taken this recommendation into account.

Progress against recommendations from the last annual review

As this mini-annual review focused on assessing the degree to which recommendations from the last annual review conducted in September 2016 were implemented by programme stakeholders, no specific progress on recommendations is included here.

Summary of recommendations leading to the Mid Term Review in November 2017

This annual review's primary recommendation relates to the overall **design of PEPE**. Ahead of the MTR later this year, the annual review recommends revisions to PEPE to enhance its design, reduce complexity and reduce management burden on the SRO.

Recommendation 1: Redesign, reflecting the following, implemented as far as possible by the time of the Mid Term Review

a) Agree a time-bound no cost extension of the current **IFC MDI Trust Fund** agreement by six to 12 months (original agreement expired on 30 June 2017) before terminating support to IFC through PEPE.
b) Terminate Enterprise Partners' **base of the pyramid** (digital financial services, DFS) work due to poor alignment with the core portfolio and emerging challenges to delivery of impact. Allow a six month transition period.
c) Require Enterprise Partners to deliver a short term surge in analysis and development of new interventions in the **Fruit and Vegetables (FAV) sector** ahead of MTRthe MTR, with performance milestones at risk, allowing for review and potentially terminate thereafter if it is still not performing.
d) Subject to ECF addressing current recommendations and a further review of some aspects of **ECF**, it could be redesigned and recapitalised post March 2018 to enable more strategic impact.
e) Explore options to enhance **coordination capacity** to support the SRO's management of PEPE.

In addition, the following should be considered, with a view to making further revisions at the time of the Mid Term Review:

Recommendation 2: As set out in DAI contract amendment 2 (p5: "*At mid-term (September 2016) DAI and DFID can discuss modifying the contract type to payment by results*[6]*, as appropriate*"), consider

[6] DFID defines Payment by Results as "payment on the delivery of a pre-agreed result". In the context of PEPE, this might mean, for example, that PEPE receives payment upon the creation of a certain number of jobs (its impact target).

modifying the contract type from its current hybrid structure (partially expenses based, and partially milestones based) to payment by results.

Recommendation 3: In order to enhance cost transparency, ensure that any savings made by DAI on an annual basis against their expenditure forecasts, are reinvested in the programme, and that this is presented with submission of the annual report.

In terms of **ECF**, immediate priorities for the remaining life of the current Memorandum of Understanding between DFID and the Ministry of Industry (recently granted a no cost extension due to underspend), are summarised in recommendations 4 - 6 below.

Recommendation 4: Strengthen environmental and social risk assessment and management processes. This must apply to all future support, and any necessary retrospective application to ECF's current client portfolio should be considered. This may have resource implications which would need approval.

Recommendation 5: Further analysis of ECF portfolio, results to date and processes in order to inform short term and future improvements (see recommendation 1.d). These should be reflected through revisions to the operations and grants manuals.

Recommendation 6: DFID and MoI to review and potentially redesign ECF governance, targets (currently ECF performance is measured in terms of job creation, investment, sales and exports targets so the appropriateness of indicators and the targets should be reviewed), operations and alignment with the rest of PEPE (e.g. contributing and responding to shared industry diagnostics and aligning with SMEFP and WEDP). This review should draw on experience of other challenge funds, and be completed ahead of the MTR, with a view to seeking approval for implementation of a future phase from 1st April 2018.

In terms of **green growth**, EP in particular has taken positive steps to develop a coherent and credible green growth strategy. This should be continued through recommendations 7-9. This should also include building in some iterative learning processes around the most effective drivers of change; e.g. the balance of compliance with domestic regulation, international standards and voluntary norms, to ensure that firms are deterred from and/or held accountable for any damage that they cause to the environment, including pollution/green house gas (GHG) emissions/effects on watershed management etc. Sharing this approach more widely, including through other DFID funded initiatives, would ensure better value for money by using the learning from this programme to develop a deeper understanding of what greening the industrial agenda means in practice and avoiding duplication of efforts.

As mentioned above, ECF currently does not actively manage environmental and green growth considerations which should be addressed, reflected in recommendation 10.

Recommendation 7: EP's green growth strategy should be supported by a clear and robust safeguarding framework, with transparent lines of responsibility, particularly at sub-contractor and firm level. Clearly defined trigger points for a deeper dive into a firm or sub-contractors environmental performance/willingness to "green" their operations would help mitigate the risk of bad practice slipping under the radar and damaging the green credentials of the project or interventions

Recommendation 8: The green growth strategy should be strongly embedded across the programme. EP should support ECF in developing an aligned strategy underpinned by a shared vision/narrative and identifying an effective framework of standards. This could be developed with DFID's input to be transformative, scalable and applicable to further industrial developments

Recommendation 9: The green growth strategy should have a clear line of sight to GTP II targets; particularly on mitigation of GHG emissions. Locking in clean rather than dirty will be increasingly important as the infrastructure develops to support growth (i.e. transport, housing, energy). PEPE could be in the vanguard of this.

Recommendation 10: Lessons learned about effective green industrialisation interventions, particularly about the most effective drivers of change, should be documented by all implementing partners, and shared more widely including through DFID's networks.

For **social inclusion**, the review has a number of recommendations that include but are not limited to WEE.

Recommendation 11: EP's WEE framework is applied and utilised more fully throughout the project cycle to ensure that the utility of the WEE framework goes beyond the design stage of interventions but also supports market strategy refreshers, intervention monitoring and adaption. This could be done by including a standing agenda on WEE during quarterly review meetings, market strategy refreshers, portfolio reviews and monitoring and results measurement (MRM) discussions. Additional analysis could be conducted by EP. For instance, in addition to describing the status of women in markets and sectors, the WEE framework should add value by analysing how women's needs, access to and control over relevant services for workers (e.g. healthcare, financial) may differ because of existing gender and power relations.
Recommendation 12: EP should enhance the WEE framework (especially for future WEE applications). For example, EP should establish what the minimum WEE mainstreaming benchmark is for all sectors and interventions. This could include a stronger focus on women's *control* over assets, greater differentiation of women (e.g. by age, disability, marital status) and an assessment of broader constraints to women's economic empowerment including gender based violence, gender dynamics and power relations.
Recommendation 13: Social exclusion analysis needs to feature more strongly during EP's market strategy design/refreshers as well as intervention designs. This should involve more detailed analysis to inform their description of 'who are the poor'. For example, this should involve asking which sub-groups are excluded from taking up opportunities in a given sector and why they are excluded, as well as which groups of people that are already in the sector are benefiting and which are not?
Recommendation 14: Since women's empowerment is among ECF's eligibility criteria, it has to be applied rigorously and results have to be monitored, aggregated and reported. This will also require ECF to define women's empowerment more specifically whilst encompassing broader tenets of empowerment, to establish a minimum benchmark and to triangulate partner firms' claims with discussions with workers.
Recommendation 15: ECF should strengthen their social inclusion assessment and subsequent follow up.
Recommendation 16: The IFC should disaggregate diagnostic studies and business surveys along key social parameters such as gender, disability and geography. Pre reform diagnosis should also include an assessment of the potential social and economic effects on all groups expected to be affected by the reforms including beyond the business community.
Recommendation 17: IFC's gender diagnostic study includes several feasible actions that could be taken up by the programme. These should be adequately integrated in the second phase of the programme.
Recommendation 18: All implementing partners should have a good understanding of how people with disabilities are participating (or not) in the sectors they work in and become cognisant of their particular challenges (e.g. businesses owned by people with disabilities in the case of IFC). Attitudinal, environmental, institutional as well as internalised barriers have to be understood in order to discern where adjustments can be made in existing and future interventions to ensure inclusion of people with disabilities.

The **Logframe redesign** is almost final.

Recommendation 19: DFID, the evaluation team and implementing partners should work to develop a more appropriate strategy for results measurement and attribution ahead of the MTR.

Recommendation 20: PEPE coordination sessions should have a clear decision making remit ensuring that each component understands the role of others, the resources that they can provide, and which component is best placed to bring about a change. DFID may have a strong role to play as arbiter.

There is a need to enhance **VFM analysis** across the programme.

Recommendation 21: VFM analysis within all PEPE components should be strengthened to improve decision making. Related to the previous recommendation, the use of VFM analysis could be a particular focus of coordination sessions, sharing each component's approach to VFM and jointly seeking areas where the VFM of PEPE could be strengthened. This should result in concrete examples of VFM-based decisions occurring in all components by the MTR.

A. Introduction and Context (1 page)

DevTracker Link to Business Case:	**http://iati.dfid.gov.uk/iati_documents/3982910.doc**
DevTracker Link to Log frame:	http://iati.dfid.gov.uk/iati_documents/3625989.xls

Outline of the programme

The Ethiopian economy has experienced strong and broad-based growth over the past decade, approaching double digit growth per year between 2006 and 2015 compared to the regional average of 3% in 2015[7]. To promote this continued growth, the Government of Ethiopia is increasing efforts to industrialise the economy through labour intensive light manufacturing investment, to make the economy more climate-resilient and prioritising the economic empowerment of women. While expansion of services and agricultural sectors accounts for most of the growth in the economy, the performance of the manufacturing sector remains below the Sub-Saharan African average. Responding to these challenges, the Private Enterprise Programme Ethiopia (PEPE) is a seven year multi-sector initiative funded by the Department for International Development (DFID) to create jobs and increase incomes, with particular emphasis on impact for women and green growth.

PEPE has four components:

1. **Enterprise Partners (EP)** is a programme implemented by DAI to tackle key constraints in the agro-industrial and financial sectors in Ethiopia. EP follows the making markets work for the poor (M4P) approach, aiming to transform the systems within which poor people live and work.

   EP aims to tackle binding constraints to growth through the Agro-Industrial Group and the Finance Group:

   Agro-Industrial Group: EP aims to catalyse productivity improvements and investment in key Ethiopian sectors: cotton, textile and apparel (CTA), livestock and leather (LAL) and fruits and vegetables (FAV). The garments industry has great potential for creating growth and exports. There is a potential to benefit smallholder cotton farmers by increasing the quality and volume of their production in order to supply new garments factories. Fruits and vegetables offer significant opportunity for exports, alongside large opportunity for poverty reduction, with 16 million small-holders currently involved in FAV farming. Leather is among the top manufacturing export products in Ethiopia, and has potential to expand.

   Finance Group: EP aims to increase access to finance for three main groups.

- Firstly, it targets the base of the pyramid, working with public and private enterprises to improve financial services for the poor. This is focussed on developing digital financial services.

- Secondly, it targets medium and small enterprises to address the "missing middle funding gap" faced by firms currently too small for bank lending, but too big for micro-finance. It does so by providing technical assistance to micro-finance institutions and other financial institutions. As part of this, the 'Women Entrepreneurship Development Programme" has supported MFIs and the Development Bank of Ethiopia to manage a fund of $45.9 million provided by the World Bank for lending to women-owned SMEs through MFIs. A further phase of WEDP is being supported by JICA and IDC, which will extend the credit line by $66.9m. A new SME Finance Project (SMEFP) which will follow a similar model to WEDP, with a value of $276m, also launched in 2017.

- Thirdly, EP targets large enterprises through interventions in the equity market, improving the ability of large enterprises to access investment and grow their businessalongside supporting investment promotion to attract large foreign direct investment into Ethiopia.

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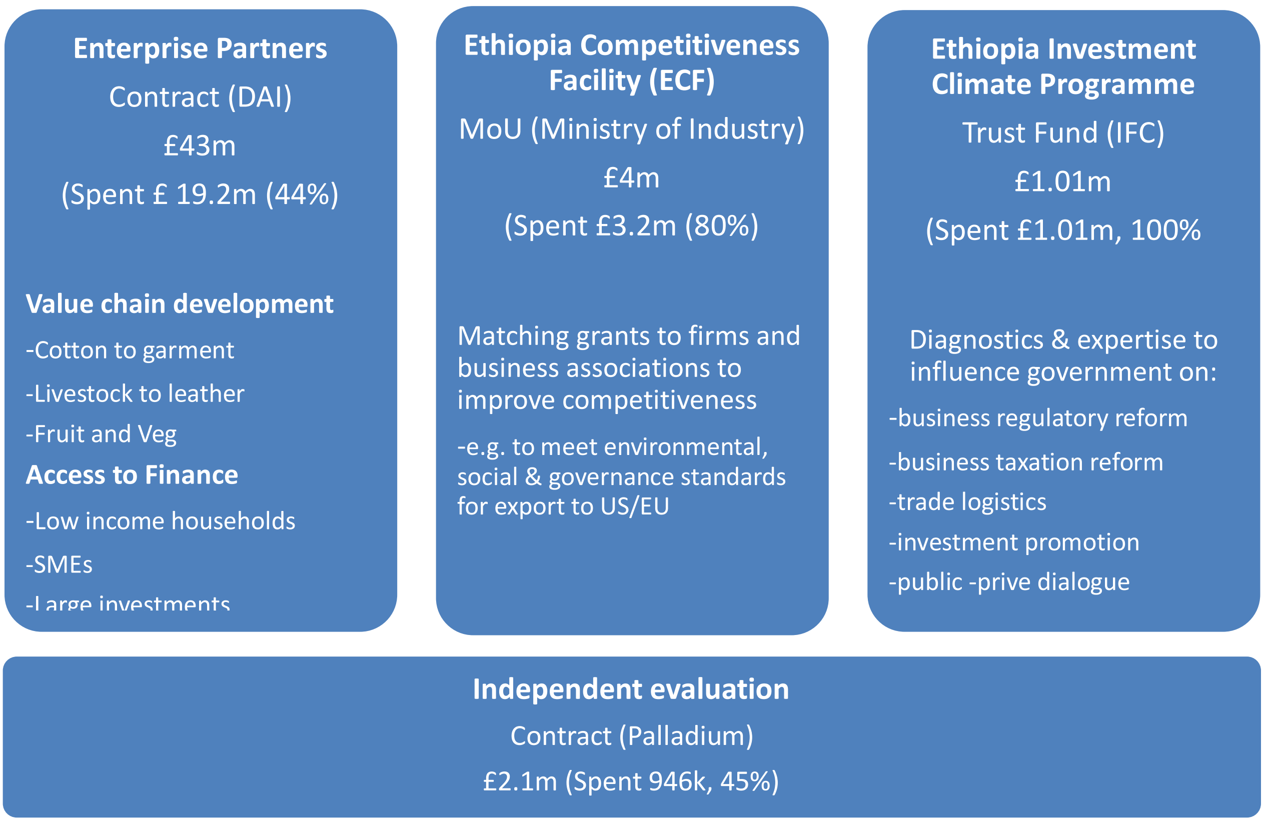
[7] World Bank Group: World Development Indicators database. Accessed June 2017: http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=ETH

2. **Ethiopian Competitiveness Facility (ECF)** is a challenge fund managed by the Government of Ethiopia, aimed at improving the competitiveness of the private sector through the provision of matched grants to enable firms to access business development services, make capital investments and promote their businesses in order to grow, increase exports and become more competitive.

3. **IFC Multi-Donor Initiative (MDI)** implements the Ethiopia Investment Climate Programme (EICP) which aims to improve the business environment in Ethiopia. IFC's approach combines analysis-led diagnostics with local expertise working closely with government, global expertise taken from across the World Bank Group. To date, its key activities have focussed on supporting public-private dialogue, business regulatory reform, business taxation reform, investment policy and promotion and trade logistics. DFID is a donor to the EICP through PEPE[8].

4. **Independent evaluation:** Complementing and contributing to these pillars is an independent impact evaluation, research, and annual reviews of PEPE by a separate technical service provider - a

5. consortium led by Palladium.



[8] Under the MDI the IFC is also implementing a programme of work around Access to Finance, to which DFID is not contributing, but over which it has influence through the joint Steering Committee.

B: PERFORMANCE AND CONCLUSIONS (1-2 pages)

Annual outcome and impact assessment

A full assessment of outcomes and impacts was conducted during the last annual review in September 2016. That review raised concerns regarding the prospects of the programme reaching its end-of-programme outcome and impact targets and provided a number of general and output-specific recommendations to be implemented in the subsequent six months in order for the programme to be ready for a more robust MTR in April 2018.

As such, this review did not include an assessment of outcomes and impacts, but rather focused on an assessment of the degree to which the general and output specific recommendations were taken into account. This section will provide an assessment of progress against the recommendations.

Overall output score and description

The programme has achieved an overall score of A. The programme is meeting expectations, with some elements slightly underperforming, as shown below. 23 of the 39 recommendations either met or exceeded expectations, and all of the others partially met expectations.

Output 1: 'Supporting functions[9] of priority agro-industrial sectors improve' is partially meeting expectations (B).

Output 2: 'Rules[10] of priority agro-industrial sectors improve' is partially meeting expectations (B).

Output 3: 'Supporting functions of financial sectors improve' is meeting expectations (A).

Output 4: 'Rules of finance sectors improve' is meeting expectations (A).

Output 5: 'Business enabling environment in markets become more conducive for pro-poor growth' is partially meeting expectations (A).

Output 6: 'Increased firm-level investment to upgrade their businesses in priority sectors' is partially meeting expectations and needs attention (A).

Output 7: 'Learning enables effective programme delivery' is meeting expectations (A)

Output 8: Cross-cutting recommendations is meeting expectations (A)

Key lessons

A number of overarching lessons emerge from reviewing the performance of the programme. These are summarised below.

The first lesson relates to the multiple investments required for a complex programme to implement a flexible approach to delivery. This requires a commitment to learn and adapt. The experience to date on PEPE suggests that there is no silver bullet or quick fix to adaptation This has included building a culture of data use within EP through introducing management processes such as QSRs, rotation of staff between the sector teams and the MRM function and investment committee meetings using evidence to drive decision making.

Within the larger programme across components, this also requires coordination and reflection so that implementers can identify opportunities for collaboration and eliminate duplication. This requires programme leadership. DFID has been playing this role in establishing a coordination mechanism which has been successful in the first instance at sharing information. How this information leads to decision making will require further commitment from both DFID and programme components.

An additional lesson relates to PEPE's comparative advantage in building the evidence base around the efficiency and effectiveness of green growth initiatives within the context of industrial growth. EP particularly has made positive progress in this area through implementation of its green growth strategy. Deeper analysis of these initiatives provides an opportunity to share wider lessons to strengthen the

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[9] Supporting functions are a range of market functions supporting the core exchange helping the market to develop, learn, adapt and grow – see *A Synthesis of the Making Markets Work for the Poor Approach. October 2008.*

[10] Rules are formal and informal controls that provide a key input in defining incentives and behaviour in market systems – see *A Synthesis of the Making Markets Work for the Poor Approach. October 2008.*

evidence base on the feasibility and results of green growth initiatives for the DFID Ethiopia portfolio and more widely.

An extensive review of the social inclusion considerations of the programme across all components highlighted the need to identify and levereage the opportunities for creating social and economic value which should be mutually reinforcing e.g. improving working conditions and women's empowerment contributes to firm competitiveness.

Key actions

Beyond the general recommendations and lessons learned (above) the most specific short-term action concerns the redesign of PEPE, as described in a previous section.

Has the logframe been updated since the last review?

The theory of change[11] and the logframe were reviewed in November 2016 with DFID, EP and the evaluation team. A number of next steps came out of that workshop which are largely on track (see below). Whilst the logframe is currently being finalised, the key changes are summarised as follows:

i. *Improved alignment with a revised* ***theory of change for Enterprise Partners.***

ii. ***Impact indicator 1: Number of formal jobs created in priority sectors***
    a. Annual targets of jobs created, attributable DFID, will no longer be included, and the endline target will be estimated by the independent evaluation of PEPE
    b. A new indicator will be added which tracks progress against annual job creation targets in priority sectors, where EP has made a *contribution* to their creation, rather than being able to *attribute* them fully to EP's activities. This is owing to measurement challenges for some key interventions.

iii. New impact indicator: ***Average increase in income for people in priority sectors. (£)***

iv. ***Outcome indicator 1: Amount (£m) of investment in priority sectors*** and ***Outcome indicator 3: Increase in investment in firms (£m)*** will be replaced by the following indicators given the variation in types of investment and its measurement. Targets will sum to the original total.
    a. Amount of investment in priority sectors(£m)
    b. Increase in investment in firms from financial sector development (£m)
    c. Investment in credit lines facilitated by EP (£m)

v. ***Outcome indicators 1 and 3*** *will be calculated by converting sales data into investment data, given the challenges of defining and collecting investment data*[12].

vi. ***Outcome indicator 2: Number of firms changing practice in priority sectors***
    a. This will move from an absolute number to a percentage, disaggregated by firm type

vii. *Outputs 1 and 2 combined and* outputs 3 and 4 combined

viii. ***Output 1.4/2.3: Number of critical constraints being addressed*** revised (to ensure that the majority of interventions are addressing critical constaints) to:
    a. Number of PEPE interventions addressing critical constraints

ix. ***Output 1.5/2.2: Number of PEPE initiatives*** removed and replaced by:
    a. ***Number of changes to rules of priority agro-industrial sectors/ Number of changes to rules of finance sectors***

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[11] A "theory of change" is a tool used by DFID to describe how we think our interventions will lead to change. Annual reviews seeks to test whether this "theory" and the assumptions contained in it are holding true in practice.
[12] The conversion will be based on international experience and validated in the local context upon collection of sufficient evaluation data.

Whilst enhanced targets to reflect proposed additional work on WEDP phase II and the SME Finance Project have been calculated (for jobs, investment and access to financial services), these will be added at the Mid Term Review subject to approval of the relevant contract amendment.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	*Supporting functions of priority agro-industrial sectors improve*		
Output number per LF	1	**Output Score**	*B*
Risk:	*Major*	Impact weighting (%):	20%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*N*

No.	**Process indicators**	**Success Criteria**	**Progress**
20	The programme should be more dynamic in its approach to new interventions and the management of existing interventions, working in more complementary areas simultaneously to assess which are most likely to deliver results.	Evaluation Team revises risk rating down from 'major'.	Partially met
21	The proposed Sector Coordinator positions need to be filled by international sector experts in each of the agro-industrial sectors. This position does not necessarily need to be filled on a full time basis.	Position filled.	Partially met
22	Additional capacity should be added in the fruits and vegetable sector to accelerate the development of new interventions.	Additional long term capacity in place.	Partially met
23	Green growth is an important component of interventions within the LAL sector. It is recommended that EP consider a more robust green growth strategy for this sector beyond its current impact measurement frameworks.	Green growth strategy revised and enhanced. Reviewed by DFID for future revision and approval.	Met

Key Points and Summary of responses to issues from last review

- While there has definitely been an increase in activity and creativity, at this stage it is not sufficient to downgrade from "major" the risk that the programme will not achieve its 2020 targets. Two mitigating factors to this are, firstly, that the time since the last review is not sufficient to fully institute a culture of idea generation and then generate interventions accordingly (so concerted effort should be sustainaed, and reviewed at the mid term review) and, secondly, that the revisions to the logframe may well change the risk profile of the programme. It is recommended that the "Major" risk rating is maintained until results can be analysed at the MTR, and as EP scales up their activities and diversifies their portfolio.
- One of three Sector Coordinator positions have been filled, with international expertise. The two other critical positions remain unfilled six months after the conclusion of the last annual review.
- Additional short term capacity has recently been added to FAV, with a plan for further strengthening (see below).
- The green growth framework and strategy has informed a greater range of interventions, including in the LAL sector.

Recommendations

Recommendation 22: Recommendation 20 from the last annual review remains active: "The programme should be more dynamic in its approach to new interventions and the management of existing interventions, working in more complementary areas simultaneously to assess which are most likely to deliver results."
Recommendation 23: EP implements a surge in activity in FAV. This will require enhanced staffing capacity, enhanced sector and markets diagnostics and strategies, and the delivery of at least three quality (facilitative, analysis-driven and systemic) pilot interventions, at least one of which is export oriented. EP should have a milestone payment conditional of achievement of these goals.

Recommendation 24: Enhanced, robustly evidenced results chains aligned with EP's overarching theory of change will be developed for all interventions. Impact assessments of pilots will provide credible evidence and justification for scale up.

Output Title	*Rules of priority agro-industrial sectors improve*		
Output number per LF	2	**Output Score**	*B*
Risk:	*Major*	Impact weighting (%):	7.5%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	**Process indicators**	**Success Criteria**	**Progress**
24	The programme should be more focused on its own analysis to guide the area and modality of intervention, in preference to responding to external requests for support.	At least 75% of interventions should be responding directly to analysis rather than responding to requests.	Partially met
25	The programme should seek to balance the speed of output achieved by directly funding an activity, with its likely uptake and effectiveness if the process is more embedded within system actors.	At least 85% of interventions should be "facilitative" rather than "direct" delivery	Partially met
26	EP's advantage in this area relative to traditional regulatory reform programmes is that they have flexibility in terms of timing, responsiveness, modes of working and partners. This should allow the programme to play a complementary role in seeking more sustainable solutions to the way in which regulatory reform is produced and implemented, leveraging the capacities and incentives of relevant actors to play these roles.	At least 50% of new interventions to support regulatory reform should be supporting existing institutions to build their capacity to enhance regulation, rather than drawing on external advisers to revise regulation.	Partially met

Key Points and Summary of responses to issues from last review

- Analysis demonstrates that just under three quarters of interventions are now analysis-driven[13]. This is far more true of the emerging portfolio than it is of current or closed interventions, showing a positive direction of travel. Analysis led interventions should form the majority of the portfolio and, indeed, DFID has other programmes which are set up to respond to government requests.
- Success criterion 25 is a proxy for sustainability, assessing whether the intervention is based on a partner's capacity and incentives to create sustainable change rather than a one-off intervention that may not have lasting benefits. Again, the direction of travel is positive but the criterion has not yet been satisfied.
- EP have not as yet focussed on the supporting functions of policy reform (building the capacity of people and systems to reform policy effectively) and, in six months, perhaps this expectation was unrealistic. Nevertheless, this should remain a niche of EP with respect to other programmes, examining the process of policy reform and working to develop the enablers of it such as advocacy and research.

Recommendations

[13] As M4P is predicated on initial analysis to identify and prioritise critical constraints (key challenges preventing markets from functioning), it is important that the majority of interventions respond to this analysis rather than responding to ad hoc requests which may not reflect identified priorities.

Recommendation 25: In working to embed the policy reform process and to build Ethiopian Government capacity, EP should work to enhance coordination and alignment between government agencies wherever possible, by consulting and enaging all relevant government agencies in any dialogue.

Output Title	*Supporting functions of financial sectors improve*		
Output number per LF	3	Output Score	*A*
Risk:	*Moderate*	Impact weighting (%):	7.5%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
27	With respect to Base of the Pyramid (BOP) (but beyond this as well) digital finance should be a priority for PEPE.	All BoP interventions demonstrate evidence of potential for impact at scale.	Met
28	As PEPE proceeds with the dual task of delivering directly to, and developing a market for, technical services for MFIs/banks, there is a danger of the former taking priority over the latter, more difficult, facilitative task. The programme needs to be aware of this risk, and act to prevent it being realised.	WEDP extension proposal addresses the sustainability of interventions in the technical services market.	Met

Key Points and Summary of responses to issues from last review

- Interventions within the BOP have significant potential to reach tens of thousands of poor people with financial services through digital financial services. EP has responded to this intervention and taken positive steps to ensure that BoP interventions are able to demonstrate evidence of potential for impact at scale. This includes moving to close down the Financial Capabilty market intervention.
- There are, however, a number of challenges facing the development of DFS, not least that the State of Emergency and related internet restrictions have undermined progress.
- There is no doubt that the WEDP phase II intervention has a more sustainable model in place, attempting to build local capacity in technical services for MFIs. That said, the mode of working is direct and the size of intervention to date is small. If MFI access to technical services is a genuine critical constraint to MFI performance then other options for developing the technical services market should be explored.
- It will also be important for SMEFP to be designed and implemented in a more sustainable way, learning lessons from WEDP. Whilst its initial operations will require direct delivery, there should be a clear transition plan to move to a more sustainable model, within the available resources.

Recommendations

Recommendation 26: Though EP has met BoP recommendations as part of this review, given the change in leadership regarding DFS interventions and the fact that there is interest and programming from other large donors including DFID through Harnessing Innovations for Financial Inclusion (HIFI) and UNCDF–Better than cash alliance, as part of the PEPE redesign DFID should consider closing down this sector. The current strategy does not align well with EP's broader theory of change around supporting industrialization to drive job creation and export generation, and the benefit to (poor) households connected with digital financial services is yet to be assessed.

Output Title	*Rules of finance sectors improve*		
Output number per LF	4	Output Score	*A*
Risk:	*Major*	Impact weighting (%):	5%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
29	EP should take the lead in producing an overarching financial sector strategy based on a holistic review and analysis of the sector, and ensuring complementarity with the activities of other PEPE components, government, other development partners and other key stakeholders.	Evidence of analysis of broader financial sector strategy produced development issues, and alignment of EP's interventions with those of other development partners.	Met
30	Digital finance represents a real development need for Ethiopia and an opportunity (indeed responsibility) for PEPE.	Digital financial services market strategy produced.	Met

Key Points and Summary of responses to issues from last review

- EP produced strategies for the SME and Investment sectors rather than one holistic financial sector strategy. In response to a request from DFID, EP mapped donor involvement in the financial sector in order to ensure that they were focusing efforts in the right areas – a process which they did not find particularly useful. What EP might find more useful would be clearly setting out the linkages between the two financial sector strategies that it has developed, including how the different strands of their work fit together and respond to constraints in the financial sector. This will, of course, involve an assessment of where others are working as a prerequisite to establishing the feasibility of intervening in a particular supporting function.
- EP have developed a DFS market strategy in line with other market strategies, including an overview of the market, opportunities for EP and an explanation of their vision and interventions in this market based on their analysis. However, due to some changes in national institutions related to the overall finance strategy within GoE, it appears that EP will be less able to progress interventions in this space in the short term.

Output Title	*Business enabling environment in markets becomes more conducive to pro-poor growth*		
Output number per LF	5	Output Score	*A*
Risk:	*Moderate*	Impact weighting (%):	*2.5%*
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
31	IFC must coordinate better with both ECF and the Enterprise Partners components of PEPE to ensure that work is additional and complimentary.	IFC to provide at least two examples of coordination with ECF and/or EP.	Met
32	IFC should extend monitoring of changes already brought into force, to assess competencies among those charged with implementing the changes and business experiences of them.	Assessment of competence of reform implementers conducted and documented.	Partially met
33	DFID should conduct a full assessment of the Access to Finance pillar if funding is to be considered. The assessment should focus on what an appropriate role for the IFC should be in this area in terms of the respective skillsets and complementarity with other parts of PEPE.	Full assessment completed if funding considered.	Met

Key Points and Summary of responses to issues from last review

- IFC has made progress in better coordinating with ECF and EP, including participating in coordination events organised with other programme components.
- During meetings with IFC, the team were able to demonstrate some broader thinking and evidence suggesting that they have taken the recommendation around enforcement of regulatory changes into account. For instance, the team cited trainings held in the north of the country including over 400 regulators and businesses to conduct education and awareness activities around the revisions to a key regulatory reform and the implications of this for programme participants. However, this seems to be more of an isolated case than a 'way of working'.
- During its next phase, IFC plans to strengthen its monitoring and evaluation of the implementation and impact of regulatory reforms to which it contributed. It also intends to focus on strengthening the capacity of the Government to carry out sustainable reforms, to reduce implementation gaps, thereby improving government and regulatory service delivery.
- Funding will not be considered for IFC MDI Pillar II on the basis of past performance. A full assessment was not therefore required.

Recommendations

Recommendation 27: Given that the work of the IFC is likely to continue with funding from other donors, and the fact that DFID may be able to retain influence through support to WEDP and SMEFP which should align around pillar II, as part of the PEPE redesign DFID should consider whether they should continue to support the next phase of this programme.

Output Title	*Increased firm-level investments to upgrade their businesses in priority sectors*		
Output number per LF	6	Output Score	*A*
Risk:	*Moderate*	Impact weighting (%):	5%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
34	ECF is a valuable repository of knowledge and experience working in the priority sectors. The programme must utilise this to ensure complimentary with and utility to other programmes, not least the other components of the PEPE programme.	ECF to provide at least two examples of information sharing with other programme components.	Met
35	ECF should continue to look for opportunities to create more sustainable outcomes which will continue to produce results beyond the firm level.	At least two examples of support providing wider industry benefits.	Met
36	ECF should continue to focus on domestic firms as this is a less crowded donor space where there is a need for increased capacity in order to leverage the benefits of foreign investment.	At least 75% of new firms supported are domestically owned.	Met

Key Points and Summary of responses to issues raised in previous annual reviews

In terms of the specific recommendations set for ECF in the last review, the review found the following:

- ECF shared a list of client firms with EP to identify those with a risk of duplication, and a need for alignment. It also shared its M&E documentation, intervention areas and market trend analysis.
- ECF is supporting two industry associations to provide training to their members. Support was provided on the basis that they are expected to have sufficient capacity to generate their own income to finance these kinds of activities in future, for example through the collection of membership fees and the publication of industry magazines.
- 94% of ECF client firms in this phase of the programme are domestically owned.

As a review of ECF was a particular focus of this review, the review team conducted a more in-depth analysis than has been done in prior years. This section summarises the findings of this in-depth review.

It was felt by the review team that ECF is highly valued by recipient firms, that the support offers good value for money and impact in terms of enhancing firm competitiveness. There are, however, a number of weaknesses in its current structure that could be addressed to enhance its strategic impact. These include weak social and environmental risk management, limited support under pilot window four (import substitution), and challenges with the inaccessibility of ECF to firms contrained by a lack of working capital. As ECF's current funding ends in March 2018 and a recapitalisation of the facility is under discussion by DFID, this provides a good opportunity to discuss how a redesign of ECF in a second phase could address some of these weaknesses.

- There is a need to strengthen ECF's client selection process, including the use of a more robust checklist of environmental, labour and health and safety issues as well as land acquisition and community relations.
- Currently window four (import substitution) accounts for only 6% of ECF grant allocation. This is a critical area of support, needed to enhance the linkages between foreign and domestic industry, and to enable Ethiopia to capture a greater share of the benefits of industrialisation.This should include:
    - inputs (both goods and services) to firms e.g. locally produced packaging and accessories, and local consultancy advice on factory upgrading.

- sub-contracting by FDIs to local firms e.g. for the manufacture of garments for export.

- Whilst SMEs are eligible to apply to ECF[14], it is likely that many MSMEs with growth potential are not able to access support owing to lack of working capital to make investments up front, for which a share is later reimbursed by ECF[15].
- ECF does not have staff or financial resources to conduct in depth analysis to inform its resource allocation, though it does have significant market intelligence through its relationship with the Ministry of Industry and in depth knowledge of ECF client firms with whom it has worked for several years.
- ECF currently lacks a green growth or social inclusion strategy.
- Some ECF clients have complained of slow and bureaucratic application and reimbursement processes.
- Whilst ECF can support areas such as social and environmental upgrading, and enhanced firm efficiency, these are not explicitly promoted or necessarily prioritised in ECF's resource allocation. For example, support for ISO and other certification only accounts for 5% of funds allocated by ECF.

Recommendations

There are both immediate priorities for the remaining life of the current Memorandum of Understanding between DFID and the Ministry of Industry (recently granted a no cost extension due to underspend), alongside recommendations that are more relevant to a future extension, which relate to addressing the weaknesses set out above.

Recommendation 28: Findings of the baseline independent evaluation should be followed up on by ECF/MOI ahead of the Mid Term Review in order to contribute to an assessment of ECF's effectivesness:

- review why around only one third of domestically owned firms are members of industry associations, as opposed to over 65% of foreign owned firms, and assess implications for their effectiveness, including their capacity and own income generation.
- review why firms are not prioritising improvements in their capacity utilisation, reductions in their costs or diversification of their business.

Recommendation 29: DFID conducts a Partnership Principles Assessment by the time of the next Annual Review of PEPE, following the decision that this was not needed at the programme's inception.

[14] ECF is open to firms with 250 employees or less (or larger if they are exporting at least 50% of their produce)

[15] The average firm supported by ECF has 304 employees and has a turnover of ETB 56m. 14 of the companies with ECF contracts had them terminated, and in many cases owing to lack of working capital to make the up front investments.

Output Title	*Learning enables effective programme delivery*		
Output number per LF	7	Output Score	*A*
Risk:	*Moderate*	Impact weighting (%):	2.5%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
37	The evaluation baseline report should quickly be finalised and presented to industry stakeholders.	Evaluation baseline report presented to stakeholders.	Met
38	Further analysis of the evaluation baseline datasets should be conducted urgently to inform programme interventions, and discrete research pieces drawing on this and programme data should be used to inform and assess changes in the wider environment that may affect the programme's ability to achieve its objectives.	Further analysis conducted and documented.	Met
39	The evaluation team should provide timely and thorough quality assurance of a revised logframe.	Revised logframe quality assured and finalised.	Met

Key Points and Summary of responses to issues raised in previous annual reviews

- The finalised evaluation baseline report was circulated to DFID and the Ministry of Industry in November 2016 and a presentation to key stakeholders took place in early May 2017.
- EP has conducted further analysis of baseline data through the creation of dashboard structured around the seven key constraints faced by the respective sectors. This has been used to test market strategies and to inform EP's portfolio analysis.
- Palladium has provided examples of further analysis of the evaluation baseline datasets, for example, supporting EP to enhance the evidence in its Intervention Guide for the labour souricng and soft skills training in Hawassa, Hawassa Industrial Park Sourcing and Training Employees in the Region (HIPSTER) intervention. Palladium plans to submit a plan for future discrete research studies, but none have been completed since the last review.
- A logframe workshop was held in November/December 2016, and the revised logframe is close to being finalised with inputs from EP, Palladium and DFID.

Recommendations

Recommendation 30: The Evaluation Team should submit a clear work plan for the remainder of the contract period, covering but not limited to the following, by the end of June 2017:

- Mid-line data availability to inform the Mid Term Review
- Timing of the end-line data collection and analysis to inform PEPE performance at contract and MoU end dates.
- Discrete research pieces, aligned with PEPE monitoring and results measurement, the independent evaluation and wider relevant research (e.g. proposed research funded by the IGC on workers in Hawassa industrial park).

DFID and other implementing partners will have the opportunity to ask questions and provide feedback.

Output Title	*Cross-cutting issues to enhance programme delivery*		
Output number per LF	8	Output Score	*A*
Risk:	*Moderate*	Impact weighting (%):	50%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*Y*

No.	Process indicators	Success Criteria	Progress
1	**Intervention portfolio to be diversified:** In order to achieve outcome and impact level objectives, EP need to be working more actively on critical constraints in more areas. The programme needs to address change in more systemic constraints with the goal of achieving sustainable impact at scale.	Every active market[16] has active interventions addressing at least two critical constraints.	Partially met
2	EP to finalise all sector and market strategies. These should be developed on the basis of new monitoring and evaluation data, and used in the development of new interventions.	Quality strategies developed for all sectors and markets in which EP is operating.	Met
3	EP to produce documentation linking existing and pipeline interventions to market and sector strategies.	Annual and Quarterly reports (and other relevant documentation) link existing and pipeline interventions to market and sector strategies.	Met
4	EP must include criteria and timing of key decisions for further investment, adaptation, withdrawal of support (with ongoing monitoring), or closure in the measurement framework and within the peer review and portfolio review processes.	Standardised, documented and implemented process in place specifying key decision criteria (tailored to individual interventions) e.g. see QSR Terms of Reference.	Exceeded
5	**Project management structure to be reinforced:** Better analysis and portfolio diversification will require more capacity and different skillsets than currently available in the team. Changes will be required, including in the team composition and size.	Team composition reflects strong international expertise for every sector. Team size reflects sufficient intervention managers for the number and requirements of every intervention.	Partially met
6	EP to develop a staff strengthening plan outlining how key posts will be filled and how teams will be strengthened to meet delivery requirements (e.g. additional capacity within the FAV and LAL sectors and on green growth).	Staff strengthening plan submitted and agreed by DFID and all gaps addressed.	Met
7	**Green growth and women's economic empowerment (WEE) strategies and delivery plans to be enhanced:** A WEE strategy needs to be developed, and the green growth strategy (and its implementation) needs to be systematically strengthened (see below).	WEE strategy developed and green growth strategy revised and strengthened. Both reviewed by DFID for future revision and approval.	Met

No.	Process indicators	Success Criteria	Progress
8	The log frame revision should happen quickly as part	Log frame workshop	Met

[16] Cotton, Apparel (with Labour as a secondary market), Tanning, Leather Products, Inputs, Digital Finance, Private Capital, SME, Investment Promotion

	of the mini-annual review. This will require all stakeholders to work collaboratively to ensure its success. Partners should work together to establish simple and transparent indicators that the MRM team has the capability to measure. This should be supported by use of evaluation baseline data to support measurement and attribution of outcome and impact level results.	completed within three months of review drawing on evaluation baseline data.	
9	**Revise monitoring function in accordance with new logframe:** The programme MRM system must be revised to align to new reporting requirements. The logframe revision process should highlight the importance of output-level monitoring for MRM. The removal of annual targets for outcomes and impacts could support this.	Actions from log frame workshop implemented to support new log frame.	Met
10	**Separate Agro-industrial Group (AIG) and Finance strategic logic and nested logframe:** As noted in the last annual review, it is recognised that these two components of the programme have very different theories of change. It has been challenging to combine them into a single nested logframe that can enable accurate reporting according to programme logic. It is therefore recommended that the structure and content of this style of nested logframe is revised to allow for better measurement of changes at higher levels of the programme's TOC. This should be developed on the basis of a review of the strategic thinking around finance, beginning with an overall finance sector strategy to complement the three sector strategies developed for BOP, SMEs and Large Enterprises.	Logframe revised and finalised ahead of Mid Term Review.	Met
11	The evaluation baseline report should quickly be finalised and presented to industry stakeholders.	Presentation conducted.	Met
12	The evaluation team should put forward a recommendation on a revised timeframe for future evaluation and research activities.	Future evaluation and research work plan.	Partially met
13	**Culture of data use to drive programme improvement, learning and adaptation:** EP team improvements should be complemented by further improvements to the programme's ability to learn and adapt based on experience. The team should be encouraged to recognise when an intervention is not likely to deliver results, to extract learning from it, and move on. There are some good examples of this from their current work, particularly in the labour intervention in CTA, but this process needs to happen more quickly and to be more systematically integrated into how the programme functions. This includes promoting a culture of data use. The good work that has been started here with the introduction of peer and portfolio reviews should be continued and strengthened. This might include a review of the current utility and use of Intervention Guides as a core project management and knowledge management tool.	80% of all interventions reviewed demonstrate evidence of enhanced use of data	Exceeded
14	**Better use of VFM as a programme management tool:** The programme has made substantial	Implementing partners (e.g. Enterprise Partners,	Partially met

	improvements in developing a more sophisticated VFM system over the last year. Now that this system is functional, it will be important for the programme to integrate regular review and use of VFM indicators to drive programme management decisions. For instance, as EP introduces new mechanisms for programme delivery through the use of co-facilitators, the VFM system should capture relative costs and results in delivery across these two delivery modalities.	Ethiopia Competiveness Facility and IFC) can provide at least three examples of use of VFM metrics to drive decisions since the time of the last annual review.	
15	**Enhance risk management:** PEPE risk management should be enhanced and better coordinated.	Aligned risk management framework finalised in accordance with revised guidance.	Met
16	DFID and PEPE implementing partners review and produced aligned risk management frameworks.	Aligned risk management framework finalised in accordance with revised guidance.	Met
17	Improve coordination across and between PEPE components: Over the past year EP has revised its sector and market strategies to understand and clearly present the way in which EP hopes to contribute to industrial transformation in each market. It will be important for all PEPE stakeholders to come together and review current and planned interventions and initiatives within this context in order to ensure complementarity across components. DFID should support this process, particularly in conducting regular strategy reviews, and instituting more strategic governance through the Technical Steering Committee or other structures.	Regular coordination meetings attended by all implementing partners and examples of areas of collaboration and coordination identified.	Met
18	**DFID to look for ways to better incentivize cross-component collaboration and partnership.** There are a number of potential ways this might happen. For example DFID, ECF and/or IFC might take part in EP Investment Committee meetings, or a peer review mechanism might be developed between different programme components. This would allow the DFID team to better understand PEPE interventions and identify areas for complementarity and coordination including with other DFID programmes such as Land Investment for Transformation (LIFT)[17], and those of other development actors and government.	Provide at least two examples of innovations in collaboration and partnership.	Partially met
19	**Review PEPE design:** Since PEPE was designed, the context has evolved. Whilst a portfolio approach to private sector development was the best option at the outset, in the run up to the MTR, DFID should review whether the programme is fit-for-purpose for the remaining duration of the programme, whilst reducing transactions costs and maximising impact. Careful consideration must therefore be given to alternative implementation structures and activities.	Review of PEPE structure and management underway.	Met

Key Points and Summary of responses to issues raised in previous annual reviews

[17] Another DFIF funded programme also implemented by DAI Europe which has an M4P component. It is a land certification programme for 6.1 million households which aims to raise agricultural productivity and incomes of rural households.

- All active markets except those in FAV have interventions tackling at least two critical constraints. More interventions are being developed and it would appear that there are plans to increase this further with more intervention managers, which is fully supported by the review. In general newer interventions are also of greater relevance and higher quality than those developed earlier in the programme. EP has utilised evaluation data, and interventions have been mapped to critical constraints to firms. Future interventions – or those where critical constraints are returned to for further action – would benefit from mapping evidence as part of the development of results chains, answering the question, "how do you know that this is a critical constraint to increasing jobs or incomes?" See recommendation 25.
- Market strategies have been altered to better reflect the intentions of the programme. Quality strategies are available for all markets including an enhanced sector strategy for FAV, and market strategies for FAV commercial farms and export.
- All internal regular programme review procedures are linked to market and sector strategies. The market system diagnostic and strategy now appears to provide the primary reference tool for the development of interventions.
- EP has made clear progress in inculcating a culture of data use in the past six months, indicating their strong adherence to these recommendations (4 and 13). Since the last annual review EP has begun to implement a number of activities and exercises throughout the routine programme cycle to create space for reflection and adaptation based on evidence. Notably, the process around quarterly sectoral reviews (QSRs) merits particular mention. Through the preparation and conduct of these QSRs, EP creates opportunities for M&E staff, intervention staff and senior management to work together, reflect on results and take decisions around interventions based on evidence. This has resulted in a number of adaptations to programme interventions based on evidence and importantly an adaptation of their key project management tool, the intervention guide, to better capture this process.
- Strong international expertise and enhanced capacity is in place across investment, BOP and CTA sectors. LAL and FAV sectors still lack sufficient expertise and capacity to deliver the breadth and depth of interventions required for EP to fulfil its potential within the life of the programme. For example, at the time of the review FAV only had two active interventions and one intervention manager though this is being addressed as set out in the staff strengthening plan.
- A staff strengthening plan was presented and revised as part of the review. It highlighted a range of positive steps taken to address concerns about staff capacity (e.g. the successful appointment of a Technical Director, the recent appointment of a CTA sector lead with international experience). Revisions included plans to recruit additional staff to deliver a substantive improvement in capacity and international expertise in the FAV sector. The LAL Sector Coordinator position remains unfilled.
- EP have responded positively to the green growth challenge. Their strategy is now positive and generally coherent. The tools are innovative and the analysis credible and well-targeted. Green growth is now better embedded within the EP processes and there is a stronger voice for environmental experts within the decision making process. The metrics and targets though may need more analysis, particularly around balancing inputs and outcomes, and measuring impacts more effectively across sectors.
- It is evident that the WEE framework is influencing EP's portfolio diversification. Several of the new interventions that have been designed or are in the pipeline since the last Annual Review have benefited from WEE framework or are directly results of WEE analyses. See recommendations 12-14 above.
- The programme has met expectations in terms of its three recommendations related to the Logframe (8, 9 and 10). A Logframe revision workshop was held within two months of the end of the last annual review where DFID, EP and the evaluation team spent one week working through the programme logic and indicators. This workshop resulted in a series of 'next steps'. Those have largely been addressed. This review included a number of discussions to progress the revision of the overall logframe for the

programme, in line with discussions around the overall PEPE redesign (recommendation 19) and is thus on track.

- A presentation of the evaluation baseline findings was conducted in May at the Ministry of Industry
- An initial workshop of the Evaluation Technical Advisory Group was held in Brighton on 20th April. An updated work plan was submitted to DFID at the end of June 2017, which is now subject to change owing to delays to data collection for the mid line evaluation.
- In terms of VFM, EP has made good progress in the use of their VFM system and have begun to integrate VFM data into their ongoing programmatic activities, including QSR meetings, to integrate VFM data into routine decision making processes. ECF has managed to produce some data around VFM but it is unclear how these data are being used to drive decisions. IFC overall has not managed to produce any meaningful VFM metrics nor demonstrate how they have been used for decision making.
- The PEPE risk register has been updated to reflect revised DFID guidance and frameworks, and presented to implementing partners and the Ministry of Industry at a PEPE coordination meeting. The Ministry of Industry suggested using the framework as a tool for sector working groups.
- Implementing partners have been asked to provide quarterly updates to the risk register with their reports. EP and ECF have highlighted changes to the risks and mitigation, and IFC has shared its own risk matrix for comparison.
- PEPE was not established with clearly delineated mandates for the components according to skillsets. Subsequently there has been a drift of some programme components such that in some cases they appear to seek the same changes with the same partners. DFID has done well in establishing a coordination platform with monthly meetings attended by all implementing partners. However, this platform has not been given sufficient direction or a mandate for decision making which has allowed duplication and potential distortion to continue. These sessions should have a clear decision making remit ensuring that each component understands the objectives, roles and functions of others, the resources that they can provide/share, and which component is best placed to bring about a change. DFID may have a strong role to play as arbiter.
- There are, however, examples of improved collaboration and coordination, such as the sharing of information on beneficiary companies, sharing of EP's green growth framework, VFM Framework, Monitoring & Evaluation Manuals and respective social and environmental risk management process in order that they can be better aligned and learned from each other. Similarly, a joint EP and LIFT meeting with recommendations around collaboration in access to finance and agricultural interventions. And both EP and ECF are represented in Technical Working Groups on garments, leather and agro-processing which were created with significant input from EP to enhance coordination between development partners.
- The review team considered a range of options to address the need to simplify and streamline PEPE. See recommendation above.

D: VALUE FOR MONEY & FINANCIAL PERFORMANCE (1 page)

Financial Performance

Component	Approved Budget	Spend to date (until May 2017)	Percentage
Active Components			
EP Technical Service Provider	43,426,275	19,183,496	44
Ethiopia Competitiveness Facility	4,000,000	3,200,000	80
Research, Monitoring and Evaluation	2,117,873	946,696	45
Multi Donor Fund	1,073,474	1,073,474	100
Completed Projects			
Design phase completed projects	1,055,232	1,055,232	100
Procurement of goods and audits	123,717	117,117	95
Total Committed	51,796,571		
Unallocated funds	18,106,859		
Total approved budget	**69,903,430**	**25,576,014**	**37**

Recommendation 31: The total approved budget under PEPE is £69.9 million. To date approximately £51.7 million has been committed and £25.5 million spent. There is approximately £18 million uncommitted balance. Hence, the Programme Team needs to develop a future plan for allocation of the uncommitted budget.

Value for Money

As discussed elsewhere in this report, this review did not conduct a full assessment of all aspects of the programme to the level of depth of the annual review completed in September 2016, as the period of time since this report was finalised and circulated with partners was relatively short.

Rather, this review focused on assessing progress against a number of process-related recommendations. There was one recommendation related to VFM and financial performance. The findings from this are summarised below.

Recommendation	Success Criteria	Findings
Better use of VFM as a programme management tool: The programme has made substantial improvements in developing a more sophisticated VFM system over the last year. Now that this system is functional, it will be important for the programme to integrate regular review and use of VFM indicators to drive programme management decisions. For instance, as EP introduces new mechanisms for programme delivery through the use of co-facilitators, the VFM system should capture relative costs and results in delivery across these two delivery modalities.	Implementing partners (e.g. Enterprise Partners, Ethiopia Competiveness Facility and IFC) can provide at least three examples of use of VFM metrics to drive decisions since the time of the last annual review.	**Partially met:** In terms of VFM, EP has made good progress in the use of their VFM system and has begun to integrate VFM data into their ongoing programmatic activities, including QSR meetings to integrate VFM data into routine decision making processes. ECF has managed to produce some data around VFM but it is unclear how these data are being used to drive decisions. IFC overall has not managed to produce any meaningful VFM metrics nor demonstrate how they have been used for decision making.

E: RISK (½ page)

Overall risk rating: Major

Overview of programme risk

During the review period, DFID Ethiopia identified a number of areas for improvement in PEPE's management of social and envioronmental risks, which are now being implemented.

In addition, DFID introduced a new risk management framework. Two process-related recommendations from the previous annual review related to updating and better mitigating risk were included in this interim review. Findings of this assessment are below.

Recommendation	Success Criteria	Findings
Enhance risk management: PEPE risk management should be enhanced and better coordinated.	Aligned risk management framework finalised in accordance with revised guidance.	**Met:** The PEPE risk register has been updated to reflect revised DFID guidance and frameworks, and presented to implementing partners and the Ministry of Industry at a PEPE coordination meeting. The Ministry of Industry suggested using the framework as a tool for sector working groups to use.
DFID and PEPE implementing partners review and produced aligned risk management frameworks.		**Met:** Implementing partners have been asked to provide quarterly updates to the risk register with their reports. EP has highlighted changes to the risks and mitigation. ECF provided late inputs, and IFC has shared its own risk matrix for comparison.

Recommendation 32: EP and ECF risk management processes should be closely aligned as far as possible.

F: COMMERCIAL CONSIDERATIONS (½ page)

As EP continues to add new interventions and initiatives, commercial considerations particularly around procurement will become increasingly important. Hence, DFID and EP are working together on large or sensitive procurements and agreed to revise the operations manual to address unclear procurement procedures.

Delivery against planned timeframe

The last review conducted in September 2016 raised concerns regarding the prospect of EP delivering its endline outcome and impact targets and provided recommendations to be implemented during the subsequent months, pending this review. As this review focused on an assessment of specific recommendations, it did not include an assessment of outcome and impact which will be assessed in the MTR in the autum of 2017.

Delivery of the ECF component is slower than anticipated, with a no cost extension having been approved, extending the current agreement from its planned end date of 31 October 2016 to 31 March 2018. ECF is underperforming against its jobs targets and overperforming against its investment targets. ECF would require significant review and redesign were it to be recapitalised post March 2018 to enable more strategic impact.

A report was produced on IFC MDI's first phase of activities on investment climate reforms, with some significant results reported, though some activities are ongoing. As part of PEPE redesign, DFID should consider whether they should continue to support the existing phase and the next phase of IFC MDI.

Performance of partnership(s)

The last review recommended strengthening coordination between PEPE components to maximise the programme's impact. Accordingly, DFID has established a coordination platform with PEPE stakeholders meeting on a monthly basis. The forum had useful discusions and shared knowledge and experience on thematic areas such as green growth and risk management. The forum also suggested thematic areas for PEPE's Technical Steering Committee meetings which are co-chaired by DFID and the Ministry of Industry on a quarterly basis. In the future the platform should improve the strategic nature of coordination activities to avoid duplication of efforts between components and to encourage lesson learning.

During the last review the following point was highlighted:

"Ensuring that EP is responsive to, and supportive of, government reforms and priorities can present some tension to the programme's facilitative and analysis-driven approach. EP must be willing to decline requests that are not aligned with their evidence-based sector strategies, and DFID should support in identifying alternative sources of support for strategic activities."

Achieveing the right balance, whilst maintaining positive relationships with GoE, remains a challenge. EP cannot accommodate all of the requests from the Government given the restrictions of its mandate and methodology, so it was suggested that EP shares and presents its market strategies to MoI and other key stakeholders to provide more clarity on their approach, its restrictions and prioritisation of activities.

Recommendation 33: It is recommended that EP presents its sector and market strategies and the subsequent process of prioritisation of interventions to the Ministry of Industry, relevant industry institutes and other government institutions.

Asset monitoring and control

EP is the only programme component where DFID has exercised a measure of direct oversight on asset monitoring and control. EP shares an updated asset register of DFID's assets status on quarterly basis. EP has demonstrated excellent asset management. In December 2016, EP reported an asset loss so they are required to present a police report to DFID which is still pending. DFID will conduct its first asset monitoring for ECF imminently.

G: CONDITIONALITY (½ page)

The UK's overall conditionality policy applies to the financial aid component of PEPE; the Ethiopia Competitiveness Facility. In our agreement with the Government of Ethiopia we have set out the partnership conditions in our Memorandum of Understanding.

The 2016 country Partnership Principle Assessment (PPA) was noted by the Minister in July 2016. It found that it was appropriate to continue to use financial aid in Ethiopia to deliver results for poor people. A full PPA for ECF has been drafted at the time of writing, ahead of a potential recapitalisation.

H: MONITORING & EVALUATION (½ page)

Evidence and evaluation

The Palladium consortium is responsible for carrying out the independent evaluation of the programme. The last review included the following recommendations related to the evaluation (with progress summarised on p10-11 of Annex A):

- 37: The evaluation baseline report should quickly be finalised and presented to industry stakeholders.
- 38: Further analysis of the evaluation baseline datasets should be conducted urgently to inform programme interventions, and discrete research pieces drawing on this and programme data should be used to inform and assess changes in the wider environment that may affect the programme's ability to achieve its objectives.
- 39: The evaluation team should provide timely and thorough quality assurance of a revised logframe.

The finalised evaluation baseline report was circulated to DFID and the Ministry of Industry in November 2016 and a presentation to key stakeholders was conducted in May 2017. EP has conducted further analysis of baseline data through the creation of dashboard structured around the seven key constraints faced by the respective sectors. This has been used to test market strategies and to inform EP's portfolio analysis. A logframe workshop was held in November/December 2016, and the revised logframe is in the process of being finalised with inputs from EP, Palladium and DFID.

Monitoring progress throughout the review period

The interim review included two MRM-related recommendations:

- 4: EP must include criteria and timing of key decisions for further investment, adaptation, withdrawal of support (with ongoing monitoring), or closure in the measurement framework and within the peer review and portfolio review processes.
- 13: Culture of data use to drive programme improvement, learning and adaptation**:** EP team improvements should be complemented by further improvements to the programme's ability to learn and adapt based on experience.

EP has made clear progress in inculcating a culture of data use in the past six months, indicating their strong adherence to these recommendations. Since the last annual review EP has begun to implement a number of activities and exercises throughout the routine programme cycle to create space for reflection and adaptation based on evidence. Notably, the process around quarterly sectoral reviews (QSRs) merits particular mention. Through the preparation and conduct of these QSRs, EP creates opportunities for M&E staff, intervention staff and senior management to work together, reflect on results and take decisions around interventions based on evidence. This has resulted in a number of adaptations to programme interventions based on evidence and importantly an adaptation of their key project management tool, the intervention guide, to better capture this process.

The review also included three recommendations related to the Logframe:

- 8: The log frame revision should happen quickly as part of the mini-annual review.
- 9: Revise monitoring function in accordance with new logframe: The programme MRM system must be revised to align to new reporting requirements.
- 10: Separate AIG and Finance strategic logic and nested logframe: As noted in the last annual review, it is recognised that these two components of the programme have very different theories of change.

The programme has met expectations in terms of its three recommendations related to the Logframe. A Logframe revision workshop was held within two months of the end of the last annual review where DFID, EP and the evaluation team spent one week working through the programme logic and indicators. This workshop resulted in a series of ‘next steps’. Actions have been taken forward, and this review included a number of discussions to progress the revision of the overall logframe for the programme, in line with discussions around the overall PEPE redesign and is on track.