Project Title: Innovation for Development Project

Project Number:

Implementing Partners: Ministry of Innovation and Technology, Job Creation Commission,

Start Date: July 2020 **End Date:** June 2025 **PAC Meeting date:**

Brief Description

Briefly describe the overall development challenge and the expected results of the project.

For the last 10 years, the Ethiopian economy has grown at an annual rate of over 10% in real terms, making Ethiopia one of the world's fastest-growing economies. Ethiopia's growth acceleration was also supported by positive demographic trends and human development achievements. Nevertheless, Ethiopia continues to face serious development challenges and remains one of the poorest countries in the world. The demographic trends in Ethiopia suggest that more than 2 million youth are entering the labor market every year. The national labor market faces considerable challenges in absorbing new entrants. Aiming to sustain the growth momentum of the past decade, the government regards small and medium enterprises (SMEs) as engines for economic growth and employment opportunities for the country's young and growing population.

The private sector, however, remains nascent and is constrained by structural challenges, notably weak competitiveness, low economic productivity, and difficulties in doing business. Evidence also suggests that the private sector is crowded-out by the public sector, notably in access to finance. SMEs represent a missing middle in the Ethiopian economy. Job creation in the private sector looms as one of the most significant developmental priorities of the country. The challenge is to not only create new jobs, but also to improve the quality and productivity of these jobs. The changing nature of work increasingly demands entrepreneurial knowledge and skills, resilience, and innovation. Young and women entrepreneurs face particular challenges.

The overall objective of the Programme is to strengthen the innovation and entrepreneurship ecosystem in Ethiopia in order to enhance economic growth and productivity, and contribute to job creation, focusing in particular on women and youth. In order to achieve the project objective, and address the barriers that hinder the development of the innovation ecosystem, the project's intervention will be organized around six outputs:

Output 1. Enabling policy environment for ICT based start-ups and SMEs to innovate is supported

Output 2. Institutional coordination among innovation ecosystem actors is facilitated

Output 3. Capacity of SMEs and start-ups for entrepreneurship and innovation is strengthened

Output 4. Capacity of key institutions in the innovation and entrepreneurship ecosystem is strengthened

Output 5. Capacity to operate the Innovation Fund and Credit Guarantee Fund is enhanced

Output 6. Innovative financial mechanisms are made available to SMEs and start-ups

Contributing Outcome (UNDAF/CPD, RPD or GPD): UNDAF, Outcome 2: "By 2020 private-sector driven manufacturing and service industry sector growth is inclusive, sustainable, competitive and job rich." UNDP Ethiopia CPD: By 2025, all people in Ethiopia benefit from an inclusive, resilient and sustainable economy. Indicative Output(s) with gender marker[2]: GEN2

Total resources required:	USD 9,610,936.63	
Total resources allocated:		
	UNDP TRAC:	1,000,000
	Donor:	3,400,000
	Government:	
	In-Kind:	
Unfunded:		5,210,936.63

Agreed by (signatures)[1]:

Government	UNDP	Implementing Partner
Yasmin Wohabrebbi State Minister		Nigussu Tilahun Nigussu Tilahun Gebreamanuel Commissioner
Print Name:	Print Name: T-SMEH	Print Name:
Date:	Date:	Date:

Implementing Partner
August
Print Name:
Date: August 22/2023

The Federal Democratic Republic of Ethiopia Ministry of Finance 5

The Federal Democratic Republic of Ethiopia Ministry of Innovation and Technology 1

Jobs Creation Commission Ethiopia

United Nations Development Programme 3

1 Note: Adjust signatures as needed

2 The Gender Marker measures how much a project invests in gender equality and women's empowerment. Select one for each output: GEN3 (Gender equality as a principle objective); GEN2 (Gender equality as a significant objective); GEN1 (Limited contribution to gender equality); GEN0 (No contribution to gender quality)

ABBREVIATIONS

BDS	Business development services
DBE	Development Bank of Ethiopia
CPD	Country Partnership Document
EDC	Entrepreneurship Development Center
FEMSEDA	Federal Micro and Small Enterprises Development Agency
FSMMIDA	Federal Small and Medium Manufacturing Industry Development Agency
FSP	Financial service provider
FUJC&FSA	Federal Job Creation and Food Security Agency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
ICT	Information and communication technologies
IFC	International Finance Corporation
JCC	Job Creation Commission
JICA	Japan International Cooperation Agency
KOICA	Korea International Cooperation Agency
MInT	Ministry of Information and Technology
MoSHE	Ministry of Science and Higher Education
MoUDC	Ministry of Urban Development and Construction
SME	Small and medium enterprise
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United National Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

I. DEVELOPMENT CHALLENGE

Innovation for Development Project - Background

For the last 10 years, the Ethiopian economy has grown at an annual rate of over 10% in real terms, making Ethiopia one of the world's fastest-growing economies. Growth was concentrated in services, construction and agriculture on the supply side, and private consumption and investment on the demand side. While agriculture was the main economic sector of the country throughout the years, the services sector gradually took over and was complemented, in recent years, by a construction boom. This period of robust growth was also driven by large-scale public investment in infrastructure and energy.

Ethiopia's growth acceleration was also supported by positive demographic trends and human development achievements. The economic take-off coincided with a marked increase in the share of the working-age population giving a positive boost to labor supply. The population of Ethiopia has grown at a significant annual rate of more than 3%, reaching about 110 million inhabitants. The poverty rate declined from 55.5% in 2000 to 26.7% in 2016. The primary enrolment rate quadrupled, child mortality rate halved, and the number of people with access to clean water more than doubled. Average life expectancy has increased by about one year annually since 2000 and is now higher than the averages for both Sub-Saharan Africa (SSA) and low-income countries worldwide. The country's Human Development Index (HDI) rose to 0.470 in 2018, an increase of 35.8% in less than a generation.

Nevertheless, Ethiopia continues to face serious development challenges and remains one of the poorest countries in the world. Its GDP per capita reaches US$772—165th out of 180 countries (World Bank data, 2018). The economy is mostly based on agriculture, which provides employment to almost 75% of the labor force, but only 31% of the GDP. Industrial employment (including construction) reaches 7%, with about 11% of GDP. Although the agriculture sector's share of economic output has fallen sharply, it employed roughly 73% of the workforce in Ethiopia in 2013 and still accounted for an estimated 67% of employment in 2018. Ethiopia scores 0.846 on the Gender Development Index, one of the lowest in the world, and stands at 117 out of 129 countries in the SDG Gender Index.

The demographic trends in Ethiopia suggest that more than 2 million youth are entering the labor market every year. The working-age population is expected to grow to up to 94.2 million by 2025, and assuming a constant labor force participation rate (~80%), the labor force is expected to grow from 64 million in 2019 to 75.6 million by 2025. These estimates suggest the need to create 14 million jobs between 2020 and 2025 to absorb the new entrants to the labor market and the current backlog of unemployed. However, despite enormous progress in access to education throughout the country, the labor force remains mostly low-skilled; moreover, skills that are being taught align poorly with the labor needs of different sectors.

The national labor market faces considerable challenges in absorbing new entrants. Employment rates throughout the country are uneven, and high levels of unemployment are concentrated in urban areas. Women and youth face particular structural challenges when transitioning to work and tend to suffer from a systemic and persistent gap in accessing the labor market when compared to males and adults. In 2018, unemployment among urban youth (15-29) was estimated at 25.3%, and among urban females at 27%.

Aiming to sustain the growth momentum of the past decade, the government regards small and medium enterprises (SMEs) as engines for economic growth and employment opportunities for the country's young and growing population. The Growth and Transformation Plan (GTP) II seeks to bring about transformative structural changes to the economy, with an ambitious goal of turning Ethiopia into a middle-income country by 2025. The government has initiated reforms in key strategic sectors currently dominated by state-owned enterprises, privatizing the sectors of telecommunications, energy, aviation and logistics. The implementation of these reforms stands to transform the economy by strengthening the role of the private sector, contributing to export expansion and moving towards a sustainable financing model for Ethiopia's growth and development.

The private sector, however, remains nascent and is constrained by structural challenges, notably weak competitiveness, low economic productivity, and difficulties in doing business. The level of competitiveness in the country—defined as the set of institutions, policies and factors that determine the levels of economic prosperity—is 126 out of 141 countries (the World Economic Forum's Global Competitiveness Index 2019). According to this Index, Ethiopia fares best on market size and financial system stability; and it is ranked low on ICT adoption, availability of skilled workforce, domestic competition over services, and business dynamism (including burdensome private sector regulation and low entrepreneurial culture). Ethiopia's performance on the ease of "Doing Business"—the World Bank's global index that is indicative of the business environment in a country—is also quite poor, with a ranking of 159 out of 190. The most significant business challenges in the country include getting credit, handling insolvencies, protecting minority investors, registering property, and dealing with construction permits.

Evidence also suggests that the private sector is crowded-out by the public sector, notably in access to finance. Credit provided to the private sector continues to represent a small share (36%) of domestic credit, while credit to the public sector (state-owned enterprises and the central government) represents more than 63%. In Ethiopia's rural economy, a combination of high collateral requirements, poorly designed lending products, and an unwillingness of rural households to borrow money limit the diversification of rural livelihoods.

SMEs represent a missing middle in the Ethiopian economy. In spite of the enormous importance of the SME sector to the national economy with regard to job creation and alleviation of abject poverty in Ethiopia, the sector is facing a myriad of challenges, ranging from limited access to finance, lack of access to information regarding local, regional and international markets for their products and services, lack of network across value chain actors, limited capacity to develop skills of their workers and inadequate technical and managerial skills which hinders competitiveness and innovation. According to the National Plan for Job Creation (2019), four broad challenges undermine the government support provided to SMEs: (i) poor policy design, (ii) inadequate skill training, (iii) lack of targeted financial support, and (iv) poor market linkages.

Job creation in the private sector looms as one of the most significant developmental priorities of the country. High levels of subsistence employment, widespread (and minimally productive) self-employment, and very low levels of wage employment characterize the labour market in Ethiopia. The private sector and the public sector have been creating a similar number of jobs in wage employment, while the number of civil servants has doubled since 2009. This trend is unsustainable, especially with the low level of rural economic diversification and the growing pressure that increasing rural-to-urban migration is placing on the urban labour market.

The challenge is to not only create new jobs, but also to improve the quality and productivity of these jobs. Ethiopia's youth can become a dynamic force for economic growth if productive jobs can be created, but without new job opportunities, unemployment and poverty will increase. A well-qualified and productive workforce is one of the most critical factors in creating sustainable economic growth. The Ethiopian government has made remarkable strides in improving educational attainment. However, high dropout rates, low literacy levels, and the lack of necessary technical and soft skills to match the needs of the labor market are the primary factors limiting Ethiopia's transition to a middle-income economy. Barriers faced by women and youth in entering the labor market also need to be addressed.

The changing nature of work increasingly demands entrepreneurial knowledge and skills, resilience, and innovation. Turning the private sector into a job creation engine requires the entrepreneurship and innovation capabilities, as well as 21st century skills (creativity, citizenship, communication, collaboration, character, and critical thinking). These necessitate a conducive policy environment and well-tailored government services.

Young and women entrepreneurs face particular challenges. These include inadequate business skills, cumbersome administrative and regulatory frameworks, poor access to infrastructure and premises and lack of start-up capital. These are problems all entrepreneurs face, but they are disproportionately felt by youth and women. Societal and cultural attitudes, biased against youth and women taking personal initiative, crystalize these barriers for this population. The type of economic activities in Ethiopia is very gender-specific, with women undertaking low-paying jobs such as domestic work. Although women are granted legal rights to ownership and inheritance of land, they have in practice little control over it. The consequence, in terms of division of labour, is straightforward. Women provide the majority of labour in agriculture, but the management and decision-making are male domains. Nearly half of married women (48%) were employed at any time in the past 12 months compared to 99% of married men by 2016. Unemployment rate among the urban population is higher among women compared among men - employment to population ratio was 43% for females compared to 64% for males in 2016 . In addition, 58% of working women reported earning less than their husband. Out of nearly 1.4 million public service employees in 2015 to 2016; only 35 per cent were female . During 2015 to 2016, out of 1.66 million jobs created in micro and small enterprises, women held 622,998 (37%) of the jobs. Women's employment in the informal sector is much higher than men's which could be attributed to a variety of factors such as lack of education and women's greater commitment to family responsibilities. Overall, economically active women are disadvantaged compared to men in terms of the type of employment, earnings and potential for growth.

II. STRATEGY

1. Why Innovation to Address the Development Challenges?

Innovation[2] is widely acknowledged as a key driver of economic growth, and is vital to enhance prosperity, employment creation, and productivity, in line with the SDGs. The past two decades have proven the pivotal role of innovation in bringing about economic development. In fact, the build-up of innovation and entrepreneurial[3] capacities has played a central role in the growth dynamics of high-income countries. Innovation is, however, not an end in itself—the ultimate objective of innovation policies is the achievement of economic or social development targets, such as growth, job creation, enhanced productivity and income, higher quality of life, and decreased inequalities. Advancing innovation is an instrument for the achievement of such objectives, as well as a contribution to the fulfilment of the 17 Goals of the 2030 Sustainable Development Agenda. As the world moves towards a future guided by the SDGs, a strong focus is placed on building partnerships with the public and private sector, fostering jobs and opportunities for all, advancing technology and innovation and addressing sustainability.

Innovation is vital for the economic growth of Ethiopia, the well-being of its population, the achievement of stable employment, and the enhancement of productivity and income. Effective innovation policies are crucial for the country because of the extremely low-income level today (despite of the growth in the last years), the fragility of its private sector, and of the constant improvement of innovation and productivity in other countries. A delay in the advancement of innovation in Ethiopia may widen its gap with the global economy, decrease its competitiveness capability, and deteriorate its economic situation. In fact, Ethiopia already faces fierce competition as a "late-latecomer" to industrialization, technological development and innovation (UNCTAD 2019).

An entrepreneurial ecosystem that generates opportunities for all relies on the ability of its stakeholders to innovate and adopt or adapt new technologies. Innovation is embedded in all successful entrepreneurial ventures. However, innovation processes are complex and necessitate the interaction of several actors and institutions at the firm level, as well as at the country level. A sustainable and inclusive innovation policy is thus critical for the development of the country: it is not an option, it is a must.

Ethiopia's approach to innovation is guided by the Science, Technology & Innovation Policy (STI) (2012), which aims is "to see Ethiopia entrench the capabilities which enable rapid learning, adaptation and utilization of effective foreign technologies by the year 2022/23." The STI prescribes several policy principles, which can all considerably advance the innovation ecosystem: a

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2 For this purpose, innovation is defined as the ability to use new or existing knowledge to develop and apply new ideas that result in changes and improvements in products and processes in companies and organizations.

3 Entrepreneurship "*implies the capacity and willingness to undertake conception, organization, and management of a productive new venture, accepting all attendant risks and seeking profit as a reward*" (UNCTAD, 2012).

coordinated governance framework, mechanisms for technology transfer, supporting technology research and indigenous knowledge, strengthening links, and enhancing the private sector are all key aspects for a creation of a viable innovation ecosystem.

The Ministry of Innovation and Technology (MInT) is the leading government actor in the innovation ecosystem of Ethiopia, and it exhibits significant commitment to the promotion of innovation in the country. Its mandate reflects the STI policies, and its structure covers various aspects related to the advancement of innovation in the country. Interviews with MInT officials reveal significant commitment to advance innovation and a range of planned and ongoing activities that contribute to this endeavour. These include launching incubation and working spaces for entrepreneurs and start-ups; organizing innovation-related events, supporting knowledge-sharing and competitions on innovative ideas; establishment of Science Cafés in different regions; supporting innovation hubs in universities; and other specific initiatives and programs with a variety of stakeholders.

However, the rapid economic growth of Ethiopia in the past years and government's commitment to the innovation agenda have not been matched by technological learning and innovation capacity. The current level of innovation in Ethiopia is weak (ranked 111th out of 127 countries according to the Global Innovation Index 2019), primarily due to constraints that include the lack of ICT infrastructure, difficulties in doing business, low local competition, and the dearth of skilled workers. The formal policy mandate and the considerable government commitment to advance innovation are yet to be fully translated into tangible impacts on the national innovation ecosystem. The project's overall development objective is to enhance economic growth and productivity, and contribute to job creation, focusing in particular on the needs of women and the youth. This corresponds to UNDP Ethiopia CPD's outcome that "by 2025, all people in Ethiopia benefit from an inclusive, resilient and sustainable economy."

2. Barriers hindering the development of the innovation ecosystem[4] in the country and that will be tackled by the Project

Barrier 1. Lack of conducive policy environment for innovation and entrepreneurship

Conducive "doing business" environment. The first and foremost institutional measure that is needed for the advancement of the innovation ecosystem in Ethiopia is the generation of a conducive business environment in the country. This includes a range of reforms that should ease doing business, improve the transparency of the taxation system, lift bureaucratic requirements that are imposed on private companies, and enhance business predictability and stability. Fundamental changes are also required in the financial sector, including measures to attract foreign investors and venture capital funds, liberalize the foreign exchange policy, and encourage private equity investors. This may include the employment of public-private blended financing mechanisms, tax benefits to local and international investors, etc.

Supply vs. Demand-driven innovation initiatives. Ethiopian innovators find it difficult to bring their products to the market, and commercialization is an oft-cited challenge. This is, however, a symptom and not the cause of the problem. A key impediment in the current policy approach is its focus on the supply of innovations— government institutions support the establishment of innovation hubs and incubation facilities that lack connections to the industry and are not well aligned with industry needs. Innovation is supported as such, without considering the extent to which it would respond to existing market and consumer needs. A demand-driven policy approach is thus necessary.

Opportunities for technology transfer. There is currently no sufficient support for the adaptation of foreign technologies to local needs and context. The STI policy approach assumes that acquired technologies can be automatically assimilated in the local economy through learning, linkages and

[4] An innovation ecosystem refers to the complex relationships that are formed between actors or entities whose functional goal is to enable technology development and innovation. In this context, the actors would include the material resources (funds, equipment, facilities, etc.) and the human capital (students, faculty, staff, industry researchers, industry representatives, etc.) that make up the institutional entities participating in the ecosystem

demonstration effects. However, such assimilation requires the availability of platforms and mechanisms to facilitate technological learning and upgrading, and building strong linkages among ecosystem actors.

Market linkages. MInT—the leading government actor in the innovation ecosystem of Ethiopia—invests significant efforts and resources in constructing and availing facilities for start-ups. While this approach does respond to an existing need for working space, the services that are provided in these facilities are not sufficiently geared to market and entrepreneurial needs.

Barrier 2. Weak institutional capacity, coordination and linkages

Inter-governmental coordination. While inter-governmental coordination is a key pillar of the STI Policy, there is currently a dearth of coordination mechanisms or instruments that would enable MInT to guide other government agencies and collaborate on innovation priorities, needs, and programs. There is also a significant overlap between MInT and MoSHE, for instance, and lack of coordination instruments between two ministries that play a significant role in the advancement of innovation in the country.

Regional coordination. While the support of regional innovations is one of MInT's mandates, and there is a department in charge of this area, the links between MInT and regional technology and innovation authorities are relatively weak. There is no coordination among the regional authorities, and MInT's contribution to their agendas could be enhanced.

Academia-industry linkages. Academic and research institutions have traditionally been viewed as a vital support infrastructure for innovation and job creation, providing trained professionals, research results, and knowledge to the private sector. The growth of industrial conurbations around universities has become, in fact, the hallmark of entrepreneurial regions (e.g., Silicon Valley's electronics and semiconductor industry). In Ethiopia, the linkage between the academia and the private sector is currently weak. Despite the growing number of universities and research institutes in the country, and despite the existence of university-industry linkage departments in all public universities, their contribution to innovation in the private sector and to job creation is currently limited. The problem cuts both ways as most Ethiopian industrial enterprises have weak absorptive capacity for externally generated knowledge, and industry players regard universities as unimportant information sources for Ethiopian industry's innovative activities. While MInT facilitates events that bring together academia and industry representatives, practical collaborations are quite scarce.

Barrier 3. Weak entrepreneurial and innovation capacity & lack of mechanisms to incentivize innovation

Mechanisms that incentivize the private sector to undertake innovative activities are currently quite limited. There is a clear need for improvement in several types of government services:

Access to finance. The challenge of accessing finance for innovation is reiterated by all stakeholders as a major impediment for the growth of SMEs and start-ups, and for their capacity to adapt innovative technologies. The challenges in this respect is not necessarily the availability of funds, but rather the ability of SMEs and start-ups to access financing that would enable innovation. Specific issues of concern for respondents include availability of subsidized loans, loan guarantees, access to venture capital, special funds for firms to invest in R&D, special funds to invest in innovation absorption, and special funds for SMEs to innovate.

Access to information, technology adaptation, and business development services. The lack of information regarding available government programs, as well as innovative products or services that could be adapted by the private sector is a major impediment for innovation growth in the country, as underscored by all survey respondents and key informants.

Awareness regarding the value of innovation and entrepreneurship. Innovation and entrepreneurial activities are not currently perceived as desirable career paths for the youth, and acceptance of risks or failure is generally low. Key informants also refer to a "dependence attitude," as part of which entrepreneurs expect support providers to take care of their business operation, rather than fulfill the potential of their business on their own. There is also a common expectation that the government would take care of various entrepreneurial needs, such as conducting market needs assessments. There is thus a need to raise awareness regarding the potential of innovation and entrepreneurship.

Barrier 4. The structural disadvantage of female entrepreneurs

The challenges of female-owned SMEs. Female-owned firms in Ethiopia underperform those owned by men in an array of critical dimensions including profitability, survival rate, average size, and growth trajectory. Estimates suggest that while female-owned SMEs account for only 44 percent of firms, they make up nearly 70 percent of failed businesses. This can be attributed to the fact that women entrepreneurs have less access to resources to grow and formalize their businesses, and less access to information to learn regarding market needs and opportunities; spend less time than men entrepreneurs on business activities (presumably due to conflicting domestic responsibilities); hire less labor; and are less likely to have a business license. Women also face social biases against their decision to engage in SMEs, and lack inspirational role models. They also frequently exhibit lower levels of financial and digital literacy, compared to men.

Women also face more barriers in accessing formal credit and fall into a "missing middle" trap. Nearly half of female-managed firms identify access to finance as a major constraint compared with 19% of male-managed firms. Women are unable to access commercial loans due to high minimum loan sizes and excessive collateral requirements, but they are also underserved by microfinance Institutions (MFIs), which primarily cater to micro-firms with group lending schemes that provide very small loans, and tend to have low outreach to women (30%). When they do access credit, women tend to receive smaller loans, which are often too small to meaningfully invest in their firms, thus widening the gender gap.

The unmet potential of women entrepreneurs hinders not only female livelihoods, but also the potential for poverty alleviation and growth on a national level. There is thus a pressing need to address both structural constraints that impede female entrepreneurship: provide targeted and market-oriented skills to aspiring and existing female entrepreneurs; and facilitate access to innovative financial mechanisms for female-owned SMEs. This project will aim to take up on both issues.

3. Innovation for Development Project - Objectives and Approach to Contribute to the Mitigation of Development Challenges

This Project will seek to contribute to the mitigation of the above-mentioned development challenges by adhering to the following principles, theory of change and through a cluster of activities tailored to respond to the challenges.

The objective of this Project is to strengthen the innovation ecosystem in Ethiopia as a vehicle to strengthen job creation for women and the youth, enhance the economic productivity of SMEs, and support start-ups.[5] This approach directly corresponds to UNDP's larger global focus on innovation and its belief that investing in enhancing innovation will greatly contribute to alleviating poverty and create decent job opportunities. It launched a three-year global initiative and established accelerator labs in 60 countries and Ethiopia is one of the selected countries, to build the largest and fastest global learning network. The initiative responds to the widespread recognition for the need to get away from business-as-usual to take us to the world we want in 2030 and beyond. UNDP is one of the development organizations expected to propose new ways of operating that brings about innovation and shapes new solutions to developmental challenges.

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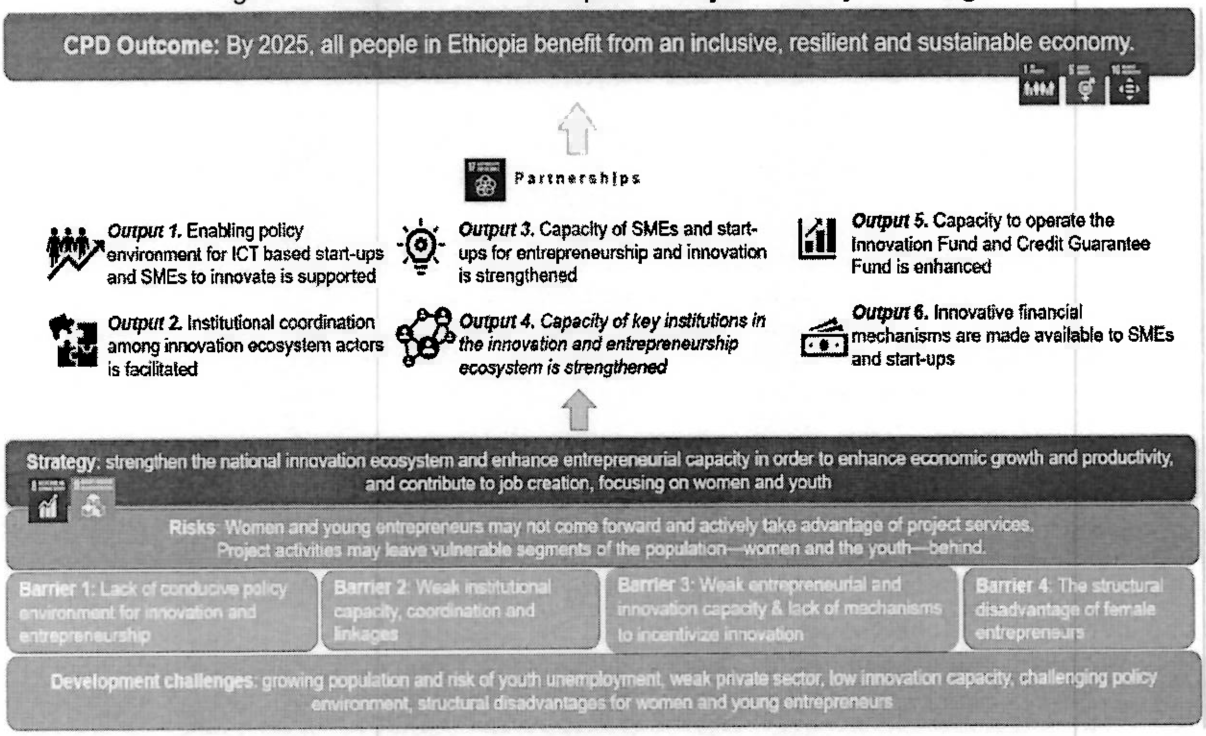
5 The current state of the innovation ecosystem in Ethiopia and the primary barriers that hinder the advancement of innovation were identified as part of an "Innovation Ecosystem Assessment," which was commissioned by the UNDP and carried out in August-October 2019. The assessment employed a mixed quantitative/qualitative methodology. Overall, 294 individuals responded to surveys that were distributed as part of the assessment preparation, and nearly 60 key stakeholders of the innovation ecosystem took part in interviews that informed the assessment findings.

4. *Innovation for Development Project - Theory of Change*

The project's overall development objective is to enhance economic growth and productivity, and contribute to job creation, focusing in particular on the needs of women and the youth. This corresponds to UNDP Ethiopia CPD's outcome that "by 2025, all people in Ethiopia benefit from an inclusive, resilient and sustainable economy." The project's theory of change to achieve this outcome is that the national innovation and entrepreneurship ecosystem needs to be strengthened through overcoming the following barriers (i) lack of conducive policy environment for innovation and entrepreneurship; (ii) weak institutional capacity, coordination, and linkages; (iii) low entrepreneurial and innovation capacity, in particular among women and young entrepreneurs; and (iv) lack of financial mechanisms to incentivize innovation by SMEs and start-ups, affecting in particular women and young entrepreneurs.

Activities supported by the project will aim to overcome these barriers, and hence contribute to the achievement of the CPD outcome, through two project-level outputs: (i) the innovation ecosystem for SMEs and start-ups is strengthened; and (ii) sustainable financial mechanisms to facilitate innovation by ICT-based SMEs and start-ups are developed. Figure 1 illustrates the project's Theory of Change.

Figure 1. Innovation for Development Project: Theory of Change



5. *Innovation for Development Project – Guiding Principles*

Guided by the primary principles outlined in UNDAF, UNDP Ethiopia Country Office's "Country Programme Document 2020-2025" and identified in the "Innovation Ecosystem Assessment.", the activities in the project are tailored to respond to the development challenges. These principles include the following:

- **UNDP as an integrator and enabler**. In line with the CPD guidance UNDP will take advantage of its cross-sectoral position in the UN family and holistic developmental vision. It will work across sectors to strengthen the innovation ecosystem, facilitate coordination among various ecosystem actors, and bring together a wide range of partners to identify, design, and deliver innovative and integrated solutions to stimulate economic growth and spur job creation.

- **Inclusive and broad-base innovation that targets women and youth and stimulate job creation.** The innovation strategy of Ethiopia should aim to generate impact on broad segments of the economy and positively affect as many beneficiaries as possible. As such the innovation policy should not focus on narrow sub-sector of economic activities. For instance, it should not only target innovations in start-ups, but also productivity growth in existing SMEs. In line with the CPD priorities, the project will particularly focus on those left behind, especially women and youth, in innovation and entrepreneurship.

- **Innovation as a means to advance shared prosperity and job creation.** UNDP will offer six types of market-based solutions to support SME and start-ups growth and development[6]: policy advice, skilling, business development services (BDS), enterprise development, project preparation and development, and finance. The focus will be on connecting elements of the ecosystem into one whole, while transforming them as necessary. This component will tackle the critical bottleneck of credit rationing for SMEs, ensuring women gain access to finance.

- **Institutional transformation and local ownership.** As part of an UN-wide initiative, UNDP will ensure that its partnership with state and non-state institutions aims for institutional transformation rather than incremental development; are based on rigorous, peer-reviewed, capacity assessments and country-owned and driven, transformation plans.

- **Regional engagement in Ethiopia.** In light of the need to facilitate regional coordination on innovation and entrepreneurship in Ethiopia, and in line with the CPD, the Programme will gradually expand and deepen UNDP's presence and footprint at the regional level in Ethiopia. This will be primarily achieved by establishing regional coordination platforms, facilitating knowledge exchange and networking, and strengthening the integration of innovation initiatives in the different regions in Ethiopia.

III. RESULTS AND PARTNERSHIPS

Expected Results

1. Project Expected Results Linkage with UNDP Strategic Planning

This Project pursues the objectives of the United Nations Development Assistance Framework (UNDAF 2016–2020), which is prepared in alignment with GTP II and seeks to target UNDP's support to economic sectors deemed vital. The Project directly responds to UNDAF's Pillar 1: Inclusive growth and structural transformation and contributes to Outcome 2: "By 2020 private-sector driven manufacturing and service industry sector growth is inclusive, sustainable, competitive and job rich." UNDAF will be replaced by United Nations Development Corporation Framework from 2021.

According to the vision outlined in the "UNDP Strategic Plan, 2018-2021" (Strategic Plan), UNDP's global role is to support country-led efforts to achieve the 2030 Agenda. The Strategic Plan aims to help countries achieve sustainable development by eradicating poverty in all its forms and dimensions, accelerating structural transformations for sustainable development and building resilience to crises and shocks. The Innovation for Development project aims to address 2 sets of development challenges mentioned in the Strategic Plan—"Eradicate poverty in all its forms and dimensions" and "Accelerate structural transformations for sustainable development". This will be done through UNDP's signature solutions (1) "Keeping people out of poverty," and (6) "Strengthen gender equality and the empowerment of women and girls."

UNDP Ethiopia Country Programme Document is informed by UNDP Strategic Plan and is closely aligned to the national development priorities. This project responds to CPD outcome: "By 2025, all people in Ethiopia benefit from an inclusive, resilient and sustainable economy."

[6] UNDP-UNCDF, *Partnership Framework in Ethiopia*, draft, 2019.

2. Innovation for Development Project Structure – Outputs, Sub-Outputs and Activities

The overall objective of the Project is to strengthen the innovation and entrepreneurship ecosystem in Ethiopia in order to enhance economic growth and productivity, and contribute to job creation, focusing on women and youth. To achieve the project objective, and address the identified barriers, the project's intervention pursues six major outputs:

- Output 1. Enabling policy environment for ICT based start-ups and SMEs to innovate is supported;
- Output 2. Institutional coordination among innovation ecosystem actors is facilitated;
- Output 3. Capacity of SMEs and start-ups for entrepreneurship and innovation is strengthened;
- Output 4. Capacity of key institutions in the innovation and entrepreneurship ecosystem is strengthened;
- Output 5. Capacity to operate the Innovation Fund and Credit Guarantee Fund is enhanced;
- Output 6. Innovative financial mechanisms are made available to SMEs and start-ups.

The implementing partner of Output 1,2,4,5,6 is Ministry of Innovation and Technology. Jobs Creation Commission is the implementing partner of Output 3.

Output 1. Enabling policy environment for ICT based start-ups and SMEs to innovate is supported

Economies with high rates of entrepreneurship and innovation offer a conducive environment to the start-up and expansion of businesses. This includes streamlined procedures for enterprise establishment and operations, providing a stable and transparent regime that governs disclosure, licensing and registration procedures, and the protection of physical and intellectual property rights.

Ethiopia is ranked 159 out of 190 economies in the World Bank's Doing Business 2019 indicators, and its regulatory framework is notoriously complex and costly. One key challenge is the excessive use of licenses, compounded by the frequent use superfluous competence certification requirements. These create a substantial barrier to the start-up and expansion of businesses. The administrative burden for companies to exit in the case of failure, and the processes of tax administration and customs procedures are equally challenging for the private sector.

SMEs, which are often considered as the primary engine of national economic growth, experience the most significant difficulties in accessing credit in general, and innovation financing in particular. While micro-enterprises typically have access to small loans provided by micro-financing institutions and large enterprises can afford the requirements of commercial loans, SMEs face an inherent disadvantage. Lending interest rates are generally high—the minimum rate set by the National Bank of Ethiopia is 8%, but businesses usually report much higher rates for commercial loans, standing at nearly 12-15%. SMEs also face difficulties in fulfilling the collateral requirements of commercial banks. As a result, estimates suggest that only 16% of the private sector uses finance from banks for its activities, compared with Kenya where the comparable figure is 41%. This significantly constrains private sector investment, particularly by SMEs, and limits the ability of local firms to adapt new technologies, develop linkages with incoming foreign investors, and strengthen the capacity necessary to export successfully to overseas markets.

Start-ups also face significant difficulties in accessing finance. Several incubators and accelerators are in place in the country, including BlueMoon, IceAddis, and xHub, but funding opportunities as part of these accelerators are absent or limited. The presence of venture capital is also highly limited (reportedly there are only two VCs active in the country). Private equity investors face difficulties investing in the country due to weak doing business environment and regulatory challenges related to foreign exchange and limitations of getting money out of the country. MInT, the government entity in charge of start-ups, has been working on the establishment of an "Innovation Fund", which would provide seed funding to a selected number of start-ups, but the Fund has not yet been launched.

Activities under this output will be carried out in partnership with the Korean International Cooperation Agency (KOICA), and aim to enhance the institutional capacity of MInT and other government agencies to create an enabling ecosystem, including policy and regulation, for ICT-based startups and SMEs. The following activities will be supported:

- **Activity 1.1 Diagnostics of the startup Ecosystem in Ethiopia *(joint activity with KOICA).***

The diagnostic will outline the barriers faced by start-ups and opportunities for start-up development in the country. This will include a mapping of the current situation of start-ups and their available support services (both public and private), an analysis of how to support start-ups based on international good practices, and recommendations for specific policy changes and support mechanisms. The diagnostic will focus on identifying particular challenges/opportunities of women run start-ups. The findings will inform the development of a strategy document to improve the enabling ecosystem for innovation and technology. This activity will support a targeted diagnostic of primary barriers that women entrepreneurs face in running SMEs and startups, and identification of specific policy changes that need to be made to improve the enabling regulatory environment. Particular attention will be paid to female entrepreneurs in rural areas, who are more disadvantaged than urban women in this respect. The findings will inform the development of a strategy document to improve the enabling ecosystem for female entrepreneurship.

- **Activity 1.2 Technical assistance to government entities to encourage innovation by SMEs and start-ups, focusing on women and the youth**

An integrated and supporting regulatory framework to encourage SMEs and start-ups to innovate and grow is currently absent in Ethiopia, and the general conditions for doing business and access to finance for SMEs and start-ups are not favourable. For instance, while the number of procedures to register a business dropped down to 8 in Sub-Saharan Africa from 2003 to 2017, it did not change in Ethiopia, remaining at 12 (according to the National Entrepreneurship Strategy).

This activity will include two clusters of technical assistance to MInT, JCC, and FUJC&FSA: first, support to develop policy guidelines and mechanisms that improve the regulatory "doing business" environment for SMEs and start-ups; and second, support to incentivize innovation by SMEs and start-ups, and facilitate their access to finance for innovation. Israel Embassy and MASHAV will closely be engaged with the implementation of the project and provide technical cooepration.

Cluster 1: improving the regulatory "doing business" environment

SMEs in Ethiopia need to comply with a range of separate certification procedures and licenses for closely related activities, which drive their transactional costs up. Start-ups are currently subject to the same regulatory requirements as large companies, thus imposing on them unrealistic costs. A key aspect of easing the doing business conditions in the country is a thorough revision and simplification of administrative procedures. These will include the following:

- *Unify and simplify the existing definitions of SMEs and start-ups* across ministries, state agencies and governmental programmes, and simplify regulatory requirements for the establishment of different types of enterprises. This will include a revision of the *Ethiopian Standard Industrial Classification (ESIC) categories,* to allow more flexibility among different economic activities;
- *Raise the threshold over which enterprises are required to file accounting records and define adequate solutions for VAT payments;*

- *Strengthen the digital payments regulation for SMEs*, by promoting the interoperability of payment channels, expanding digital wallet limits to allow bulk payments and higher value payments (especially for agriculture and seasonal crops)
- *Develop a legal category for "innovative" start-ups* that could include adapted regulations, licenses, and structured possibilities to access funding. These mechanisms can be part of the "Start-Ups Directive" that is being developed by JCC.

Cluster 2: Incentivizing innovation and facilitating access to finance for innovation (jointly with UNCDF).

- Access to finance, and in particular access to finance for innovation, are commonly noted as one of the most significant challenges that innovative SMEs and start-ups face. The project will support the development of a range of policy mechanisms to address this challenge: *Test regulatory sandbox approaches* for start-ups that enable experimentation with innovative business models and integration of new financial products.
- *Provide tax incentives or subsidies* to SMEs that introduce technological innovations or upgrading—independently or through inter-firm collaboration. Similar incentives can be provided to SMEs that introduce new products and/or processes that contribute to economic growth.
- *Incentivize venture capital investments in start-ups*: This may draw on the example of the Israeli Yozma program, as part of which the government allocated funds to local Israeli financial institutions that partnered with foreign financial institutions. Through Yozma, the Israeli government invested around $80 million for 40% stake in ten new venture capital funds. To further attract foreign investors, the program offered them insurance covering 80% of the downside risk and gave them the option to buy out the government's share at a discount within five years (which was later exercised in eight of the funds).
- *Provide tax benefits to individuals that invest in local SMEs or start-ups*: This instrument has been successfully tested in the Israeli Angels Law, which allows individual investors who invest in qualified SMEs or start-ups to deduct the amount of their investment from their overall taxable income.
- *Support the establishment of joint venture capital funds between government and public sector*—innovation funds based on public-private partnership, while the private sector will be composed of local and foreign investors specialized in investment in innovation.
- *Enable public-private blended financing*: blended financing is used for projects that have a positive economic rate of return, but that are not attractive to financiers without a grant element. It typically includes a combination of grants with loans, soft loans, guarantees, or equity, including "convertible loans to grants," "convertible grants to loans," "partially repayable loans", etc. Blended financing mechanisms can be used to attract additional financing for important investments in innovation, by reducing exposure to risk, increasing capital leverage and enhancing the sustainability of financing schemes.
- *Support crowd-funding platforms:* crowd-funding—the use of small amounts of capital from a large number of individuals to finance a new business or product—may provide SMEs and start-ups with a promising financing source, which allows them to bypass the traditional banking system and its rigid collateral requirements.
- *Support equity co-investment*: this may include a policy framework that enables and facilitates any form of public equity investment (up to 50%) in private companies alongside a partner organisation of qualified investors (such as VC funds or business angel networks), excluding direct public investment in VC funds and funds of fund.
- *Encourage "impact investing"*—equity investments that seek to generate positive impact for society alongside strong financial returns. Impact investors actively seek to place capital in businesses, nonprofits, and funds in industries such as renewable energy, basic services including housing, healthcare, and education, micro-finance, and sustainable agriculture. Tax benefits and subsidies can be provided to incentivize such investors.

- *Support women entrepreneurs.* Special attention will be provided to policy mechanisms that can support access to finance for female entrepreneurs. This will draw on the policy mechanisms identified as part of Activity 1.2.

➢ Activity 1.3 Providing technical assistance to the Ministry of Science & Higher Education (MoSHE) to strengthen linkages between universities and the private sector

MoSHE is a key ministry for the advancement of innovation in the country, and albeit it has no dedicated innovation policy, many of the STI policy principles apply directly to MoSHE, especially in strengthening the linkages between universities and the industry. While these linkages are central for the advancement of innovation in the country, they are currently weak and the capacity of university-industry linkage (UIL) departments in universities is low. As part of this activity, technical assistance will be provided to MoSHE to develop policies and guidelines that strengthen these linkages:

- *Develop policy mechanisms to support academia-private sector collaboration*: for example, allocation of dedicated grants to joint research programs, along with clear and transparent criteria for the allocation of such grants; requirements that all research supported by public funds should be relevant to specific industry needs; commercialization programs of new technologies or innovations that originate from universities or research institutes.
- *Review and update the guidelines for UIL departments* to strengthen collaboration and coordination with the industry, and develop detailed implementation plans and monitoring arrangements to measure and assess the effectiveness of UIL departments.
- *Develop programs for industry internships for university students, and industry externships for university researchers.* These programs may include monetary incentives or grants to companies that wish to take part in the internship/externship programs. They may also provide government insurance, to offset the risks of damage caused by interns to equipment during their internships.
- *Review the curriculum on entrepreneurship and innovation.* Entrepreneurship courses are currently mandatory for all university students, but the quality needs to be strengthened. A review of the national curriculum and integration of international good practices on teaching entrepreneurship would thus be important to include learning-by-doing and experiential learning, as well as customized business cases according to the target audience and local context. The integration of ICT-based online learning tools should also be encouraged. This will require the active engagement of entrepreneurs, development practitioners, informal training providers and other stakeholders in the revision or development of entrepreneurship curriculum.
- *Copyright protection should be used to promote the growth of creative industries*, as proposed by the National STI policy. While encouraging the development of applied research in collaboration with the private sector, relevant universities should fully integrate available intellectual property schemes

This activity target universities only at the time of the project document development as the scope of the project is relatively broad. The target may be reconsidered to also include TVET depending on the availability of financial resources and strategic priority of the implementing partner and stakeholders.

➢ Activity 1.4 Capacity building training for government leadership (including regions) on ICT-based SMEs and startups promotion *(joint activity with KOICA)*.

As part of this activity, at least 25 leaders drawn from the public sector, including regions, will be trained for five days on innovation and its role for development.

- **Activity 1.5 Capacity building training for technical staff (including regions) on ICT based-SMEs and startups development *(joint activity with KOICA).***

At least 50 technical experts will be trained for one week on the role of innovation and how to support innovators and promote innovation and entrepreneurship in Ethiopia.

<u>Output 2. Institutional coordination among innovation ecosystem actors is facilitated</u>

A viable innovation ecosystem depends on the quality of interaction, coordination, and linkages among its actors—government agencies, private sector companies (large companies, SMEs, start-ups), the academia, development partners, etc. In Ethiopia, there is a low level of interaction among the different ecosystem actors: lack of interaction within the private sector between companies; insufficient collaboration between the academia and the industry; and most importantly, lack of coordination among government, private sector, and the academia; and the lack of coordination among the government departments themselves.

While inter-governmental coordination is a key pillar of the Ethiopian STI Policy, there is currently a dearth of coordination mechanisms or instruments that would enable MInT, or any other government agency, to guide the government innovation agenda and collaborate on innovation priorities, needs, and programs. This project will aim to mitigate this challenge by establishing several planning and coordination forums with mixed representatives from industry, academia, and government.

- **Activity 2.1. Establishing and operationalizing of an innovation and technology council, including periodic joint meetings among actors in the ecosystem *(joint activity with KOICA)***

UNDP and KOICA will spearhead the establishment of a national innovation council, consisting of key government officials that are engaged in the planning and execution of innovation policies, leading academic researchers, and business leaders. The purpose of the Council will be to exchange information, identify needs, discuss possible initiatives and methods to enhance interactions among the innovation stakeholders in the country, and develop collaborative action plans and activities. The Council will be managed by a high-level MInT official and hold regular sessions. UNDP and KOICA will support MInT in its operation. The Council is expected to meet regularly, and at least semi-annually.

Since the innovation needs and capacities may significantly differ in various sectors of economic activity, sectoral working groups will be established as part of the Council. Each working group would include government officials, academia and members of research institutes, and business leaders that represent the specific sector. The working group would then be dedicated to the identification of the innovation needs in the given sector, technology adaptation needs and opportunities, and other collaborative activities. Working groups could be at first established in priority sectors, such as agriculture (including agro-industry and food processing), textile, and leather.

- **Activity 2.2 Establishing a regional coordination platform on innovation and technology**

Each region in Ethiopia has its own institutional innovation and technology entity—in some regions these are bureaus, in others these are agencies. These bureaus and agencies have distinct degrees of authority, budgets, capacity levels, and challenges. They also need to respond to the unique innovation conditions, needs, and priorities of their respective regions. Currently, there are no platforms for coordination, knowledge exchange, and capacity building as part of which regional innovation and technology representatives could interact with each other, learn from other regions' experience, and plan or execute collaborative initiatives.

In line with the CPD's regional focus, the UNDP will support MInT in the establishment and operationalization of a regional innovation platform, as part of which regional representatives could convene at a bi-monthly or quarterly basis. Such a platform will include representatives from different government agencies, regional academia representatives, and business leaders, as well as international development partners.

- **Activity 2.3 Setting up an innovation working group for MInT and development partners under the DAG structure *(joint activity with KOICA)***

The innovation working group will be established to enable coordination between the Government of Ethiopia, represented by MInT, and key development partners that support the advancement of innovation policies in the country, including UNDP, KOICA, and JICA. The working group will aim to facilitate ongoing dialogue between MInT and international development partners to mobilize resources needed to support national innovation priorities, harmonize innovation-related projects and activities, and enhance resource effectiveness. Specific activities supported by the working group will include the review of policy implementation and sectoral needs, exchanging information regarding ongoing activities, and ensuring harmonization and cross-fertilization.

The structure of the working group will be as follows: Executive Committee (EC); Three Technical Committees (TC) designed based on the institutional structure of the MInT; Task Forces (TFs) within TC; and Secretariat. The Executive Committee will act as the broad oversight authority of the working group, while TCs will be in charge in supporting specific themes (such as Development and Research, Productivity enhancement, and ICT development in innovation and technology sector). Task Forces (TFs) will be formed on a permanent or temporary basis to address specific issues.

Output 3. Capacity of SMEs and start-ups for entrepreneurship and innovation is strengthened

There is a clear necessity to enlarge the entrepreneurial community in Ethiopia, and support the development of competitive and innovative SMEs and start-ups. Estimates suggest that about 85% of the enterprises in the country are micro-enterprises and few graduate into small, medium or large businesses. According to the latest available data (2012) of the Global Entrepreneurship Monitor (GEM), Ethiopia has one of the lowest entrepreneurial activity rates in sub-Saharan African countries, with about 12% of the adult population (18-64) reporting that they were in the process of establishing a new business or had been running businesses in the last 3.5 years. The average for countries in the sub-Saharan region is about 28%. Similarly, 8% of adults run established businesses in Ethiopia while the regional average stands at 15%.

The low competitiveness environment in the country presents another challenge, fuelling a common perception among SMEs that innovation is not required. Key informants indicate that SME managers often do not know their market, are not necessarily aware of market needs, and do not have clear incentives to improve their products since their market niche is perceived as pre-determined. The lack of market-driven motivation to innovate, improve the quality of products or services, and strengthen the company's productivity thus serve as significant hinders for bottom-up innovation in the country.

The project will utilize a variety of approaches and mechanisms to strengthen the capacity and motivation of SMEs and start-ups to innovate and enhance their productivity.

- **Activity 3.1 Providing customized entrepreneurship training to priority SMEs and start-ups**

Fostering entrepreneurship is widely recognized as a long-lasting remedy to deal with unemployment, income disparity, and other related economic challenges. The project will support the provision of innovative entrepreneurship trainings to kindle the entrepreneurial spirit in aspiring entrepreneurs, improve the competencies of existing entrepreneurs, and encourage the integration of innovative products, practices, and services in new and existing SMEs and start-ups.

Customized training modules will be developed to address the needs and challenges of women and youth entrepreneurs in priority sectors, and cover both ICT-based SMEs and start-ups. This activity will first require a diagnostic assessment of the needs and barriers of ICT-based SMEs and start-ups faced by each of the target groups. This assessment will be draw on the findings of Activity 1.1 (diagnostic of the start-up ecosystem) and Activity 1.2 (diagnostic of barriers faced by women entrepreneurs), as well as a rapid diagnostic by the UNDP-supported Entrepreneurship Development Center (EDC), which has acquired significant experience with SME capacity building in the past years.

The EDC will draw on the assessment to develop targeted and customized training modules that will address specific issues of concern for each of the target groups, including financial literacy and management, business plan preparation, identification of business opportunities, market needs assessments, branding and marketing, business expansion and diversification, identification and integration of innovative technologies or approaches into the business, etc. Each training module will combine group work with individual business advisory services.

About 60% of the beneficiaries will be SMEs who can be accommodated by the industrial and agro-industrial parks and who are working across the value chains in the industrial and agroindustry parks, while the remaining 40% will be SMEs that operate in the ICT sector and start-ups, who are in the initial stages of setting up their businesses. Women will constitute 60% of the beneficiaries of this activity.

A rigorous monitoring and evaluation system will be developed to assess the effectiveness of the training by regularly following up with training participants.

- **Activity 3.2 Providing business development services (BDS) to priority SMEs and start-ups**

SMEs and start-ups that took part in the entrepreneurship training and showcased high growth potential, will be eligible to special and intense coaching services. These will be provided by well-trained BDS advisors, who will support the entrepreneurs in all aspects related to day-to-day SME management and growth: book-keeping and financial management; Human resources management; Formalization of businesses and compliance with regulatory requirements; Branding and marketing; Intellectual property rights and technology transfer; Business expansion and diversification; and ICT support.

BDS advisors will place specific attention on helping their trainees apply for funding, identify new business opportunities and market needs, encourage the introduction of innovative products and services, facilitate technology transfer, and support inter-firm collaborations, as well as facilitate market linkages.

This Activity will be carried out in close collaboration with JICA and the Ethiopian Kaizen Institute (EKI) and/or Entrepreneurship Development Center (EDC). The goal of the "Kaizen" method (translated as "continuous improvement") is to increase the productivity of enterprises and enhance product quality by engaging advisors that help SMEs to improve working behaviour and productivity, develop human resources, and promote innovation across all phases of the SME operation. Since its establishment in Ethiopia in 2012, the EKI provided training to hundreds of Ethiopian manufacturing SMEs, working in collaboration with the Federal Small and Medium Manufacturing Industry Development Agency (FSMMIDA).

This project will collaborate with local Kaizen trainers and advisors on the delivery of customized BDS to SMEs and start-ups that exhibit high-growth potential and work in selected priority areas. Similarly to Activity 3.1, about 60% of the beneficiaries will be SMEs who can be accommodated by the industrial and agro-industrial parks and who are working across the value chains in the industrial and agroindustry parks, while the remaining 40% will be SMEs that operate in the ICT sector and start-ups, who are in the initial stages of setting up their businesses. Women will constitute 60% of the beneficiaries of this activity. The majority BDS trainees will be offered group BDS sessions with a select few (about 15% of applicants) will qualify for one-on-one sessions.

- **Activity 3.3 Carrying out training of trainers and BDS advisors**

This Activity will consist of training the trainers (TOT) who will deliver entrepreneurship trainings and BDS (as part of Activities 3.1 and 3.2). It will be executed in collaboration with JICA and the EKI in order to draw on the experience acquired by Kaizen advisors, harmonize efforts, and ensure efficient resource allocation.

- **Activity 3.4 Supporting a mentorship program**

Mentoring is a common to support entrepreneurs at different stages of SME development, and encourage the introduction of innovative practices. The project will work through the EDC to facilitate the establishment and operation of an alumni network of EDC ambassadors and entrepreneurial champions. These will provide support to other EDC alumni, share knowledge and experience, and nurture partnership opportunities.

The project will link up entrepreneurs with mentors based on their preferences, with a specific mentorship focus on:

- Expert mentors: mentors who deeply understand the industry, market, customers or technology and can give strategic advice and make crucial introductions and recommendations.
- "Company-builder" mentors: These mentors are entrepreneurs themselves who have been to the start-up rodeo before and can help with all the generic issues associated with building and scaling an enterprise.
- "Personal growth" mentors: More like life coaches, these mentors take a genuine interest in the entrepreneur as a person and support them with their personal growth and professional development.

Specific attention will be paid to the engagement of female mentors as role models for aspiring and existing women entrepreneurs. At least 40% of mentors will be female.

- **Activity 3.5 Setting up an "innovation agents" program to facilitate adoption of innovation and technology transfer in SMEs and start-ups**

A key challenge that hinders the adaptation of foreign technologies in local SMEs is the lack of exposure to such technologies. As SMEs do not have the means to discover potentially relevant technologies or innovation that would enhance their productivity and enable growth.

The project will address this challenge by initiating an "**innovation agents**" program, which will be managed by EDC. The program will employ independent innovation agents (consultants) that have sectoral expertise and that could work with selected SMEs and start-ups on identifying their innovation potential, looking for relevant technologies or innovative services that could be useful for the SME (based on both international and local good practices in the sector), and providing support in the adaptation of this technology. These agents could also help SMEs take full advantage of existing government support programs (e.g., subsidized loans or grants to support innovative activities), reach out to financial institutions, support collaboration with the academia, etc. The program will also encourage the innovation agents to interact and exchange good practices among themselves, thus enabling them to learn from local failures and success.

- **Activity 3.6 Facilitating twinning among selected SMEs and startups in Ethiopia and potential partners in developed countries *(jointly with KOICA)***

At least three twinning programs facilitated for five selected SMEs and 10 start-ups in each round from Ethiopia and attached to SMEs in developed countries (such as in Israel, Korea or any best performing developing country to enable South-South exchange). Selected experts will travel to and stay for few weeks and the same is true for mentors from developed countries to come and stay in Ethiopia for few weeks (2-3 weeks). KOICA, the Embassy of Israel and MASHAV will closely be involved in the implementation of the activity in the area of technical cooperation.

- **Activity 3.7 Organizing experience sharing visits for selected SMEs and start-ups *(jointly with KOICA)***

At least three experience sharing visit organized for selected SMEs and start-ups (who are selected based on competition) as well as for the leadership to get experience on SMEs and startups in other countries of similar context. This is mainly to incentivize and encourage innovators and start-ups to improve their performance, learn and share experience and improve quality of output and translate into tangible benefits and business opportunities.

- **Activity 3.8 Supporting market linkages**

Marketing support is critical for the growth and general success of enterprises, and enterprises with significant potential may fail due to inability to identify and access the right markets with their products. Activities to support market linkages for young and female entrepreneurs will be carried out by EDC, and consist of the following:

1. Supporting the participation of youth or female-owned SMEs and start-ups in marketing events such as trade fairs, exhibitions, conventions/conferences and road shows. These marketing events would offer entrepreneurs an opportunity to network, showcase and market their products.
2. Facilitating market linkages between youth or female-owned SMEs and start-ups and large established private enterprises or government institutions for business exchange and market opportunities. Under these partnerships, the entrepreneurs will be encouraged to learn from as well as trade with the established enterprise or institution. The linkages take such forms as subcontracting, outsourcing, franchising, etc.

- **Activity 3.9 Setting up an information platform on innovation**

Information regarding all aspects of the innovation process is missing in the country. There is currently no organized platform or entity that would provide structured information about innovations, programs to support or fund innovation, etc. Key informants lament particular shortages of information about government sponsored programs for innovation, information on new technologies, information in universities and in government about innovation in the business sector.

This activity will support the launch of an online information portal that will be dedicated to the advancement of innovation, and hosted on MInT's official website. This portal will include information on doing business regulations and requirements, available business development services provided by government and private sector institutions, entrepreneurship training and capacity building opportunities, networking opportunities, programs that provide grants and subsidized loans, upcoming events and conferences on innovation, etc.

In addition, the following types of information materials regarding the innovation ecosystem will be widely disseminated (e.g., in the form of newsletters, booklets, etc.): regulations and government support measures for innovation, recent developments with respect to technology adaptation and innovations, good practice examples, etc.

- **Activity 3.10 Organizing annual competitions to incentivize market-driven innovations by start-ups for established companies are held**

UNDP will collaborate with MInT to organize annual innovation contests, as part of which established large companies advertise their needs and invite start-ups, entrepreneurs, or university students to come up with specific solutions to these needs. Start-ups that come up with a product that fits the need of the companies would then benefit from an investment or a significant customer. Such competitions will assure that products or services developed by start-ups and entrepreneurs respond to concrete market needs and demands.

Output 4. Capacity of key institutions in the innovation and entrepreneurship ecosystem is strengthened

- **Activity 4.1 Providing capacity building support for selected university-industry linkage departments**

All public universities in Ethiopia are required to have University-Industry Linkage (UIL) Departments. The objectives of these departments are to support university-industry cooperative research, industry-sponsored research projects, patent licensing, consultancy services agreement between university and industry, using science and technology parks and technology business incubation centers, and industrial internships. While the establishment of these departments has been an important step to the development of university-industry collaborations and driving industry-tailored research, these departments are largely considered inefficient and weak. There is no clear indication of implementation arrangements for their work, and monitoring and evaluation is also absent.

This activity will support the development of a capacity building and knowledge exchange program for UIL departments to create links and bridges between researchers and private sector companies. This will include the development of operational guidelines, delivery of trainings and capacity building activities, and facilitation of networking opportunities. Specific attention will be paid to mechanisms to facilitate technology transfer and adaptation, in line with the STI policy.

The activity will be implemented by the Entrepreneurship Development Center (EDC), which has already undertaken similar assignments in the past.

- **Activity 4.2 Supporting professional associations to identify market demands is provided**

SMEs and start-ups often lack information regarding market needs, do not possess funds to sponsor market assessments, and expect the government or other service providers to guide them on market needs. SME growth potential is hindered as a result, and their products are not sufficiently tailored to market needs and expectations. This creates a significant gap between the products and services offered by SMEs, and consumer needs, resulting in inefficiencies, inhibiting growth, and hampering job creation.

This activity will seek to mitigate this challenge by supporting market needs assessments in priority sectors and sub-sectors, which will be undertaken by professional industry associations and relevant sectoral units of the Ethiopian Chamber of Commerce & Sectoral Association. The assessment will identify the needs of established companies in each specific sector, and communicating these needs to relevant local universities, research institutes, or TVET colleges.

- ***Activity 4.3 Supporting Science Cafés and youth centers to provide market-driven entrepreneurship services***

MInT has supported the establishment of Science Cafés in different regions to provide interactive working spaces for entrepreneurs in the regions, offer a variety of capacity building and knowledge exchange activities on entrepreneurship and innovation. Similar services may also be provided in youth centers (operated by the Ministry of Women, Youth, and Children) across the country. However, despite the promise of these platforms for the advancement of innovation, the majority of the Science Cafés in the regions are still not operational, and there is no systematic usage of "youth centers" to promote entrepreneurship and innovation among the youth.

This project will support Science Cafés and youth centers, and aim to leverage them for innovation and entrepreneurship among the youth, showcasing local innovations and examples of technology adaptation, meetings with mentors and role models, knowledge exchange on priority areas for innovation (e.g., based on regional needs and priorities), trainings and seminars on entrepreneurship and innovation, etc.

This activity will be aligned with the Youth Connekt project that has been launched by the UNDP in Ethiopia in partnership with the Ministry of Women, Youth, and Children. "Entrepreneurship and

Work Ethics" is one of the strategic pillars of Youth Connekt, and the program aims to "strengthen more than 50 youth centers/ spaces, equip them with the necessary material and provide them with entrepreneurship incubation and leadership skills." To strengthen complementarities and amplify the impacts of each program, the Innovation for Development Project will facilitate entrepreneurship support activities in youth centers that participate in Youth Connekt.

- **Activity 4.4 Support to strengthen the capacity of Centers of Excellence for Entrepreneurship to support market-driven innovations among university students**

As part of the Entrepreneurship Development Programme, UNDP supported the establishment of Centres of Excellence for Entrepreneurship (CoEEs) in five public universities to provide entrepreneurship training, business development services, encourage innovation and creativity and support students and the university community in incubating business ideas and innovations.

This activity will strengthen the linkage of the CoEEs with the private sector and their capacity to support industry-driven activities in the academia. The project will provide ongoing support to active CoEEs in the following areas:

- Ensure that activities in CoEEs are developed in close coordination with the industry and respond to pressing and tangible market needs, and that private sector companies take a full part in the development of CoEE activities.
- Organize innovation contests that are driven by industry-needs (e.g., an established company advertises a concrete demand, and students compete to address it).
- Ensure that annual innovation conferences and events are planned in collaboration with industry representatives are well tailored to industry needs.
- Strengthen linkages and coordination between the CoEEs and UIL Departments, and provide support to UIL Departments.

Output 5. Capacity to operate the Innovation Fund and Credit Guarantee Fund is enhanced

In support of GTP II, the government through the National Bank of Ethiopia (NBE) has recently developed and approved the National Financial Inclusion Strategy (NFIS) in 2016. The strategy outlines the government's vision for achieving financial inclusion in Ethiopia, namely "*Achieving universal access to and use of affordable and high-quality financial products and services in Ethiopia by 2025*" through innovative and convenient channel to promote economic growth, poverty reduction and financial stability.

However, while access to finance is a dire need of SMEs and start-ups, financial mechanisms that support innovation are currently nascent in Ethiopia. SMEs in need of finance in Ethiopia rely almost exclusively on collateral-based funding provided by the banking sector and equity investments from social networks. Less than one third of SMEs acquire bank loans at all. SMEs are much more likely to be rejected for loans and less likely to have a loan, line of credit, or overdraft facility, than are larger businesses.

This project will contribute to the achievement of some of the NFIS objectives by piloting innovative digital lending and payment products for SMEs and start-ups. Given the wide range of innovative solutions that can be introduced in the country to facilitate access to finance for SMEs and start-ups, UNDP, in partnership with UNCDF, will provide technical assistance and funding to the Development Bank of Ethiopia (DBE) and selected financial service providers to enable experimentation and piloting of various financial products. It will also collaborate with KOICA on the operationalization of a credit guarantee scheme, and support the set-up of an innovation fund, to be managed by MInT.

- **Activity 5.1 Supporting MInT to develop a directive on the management of innovation fund and loan guarantee scheme *(jointly with KOICA)***

Innovation or technology funds provide direct financing for enterprise R&D and innovative activities, often at the early stages. They typically provide grants, which are often allocated through competitive applications from entrepreneurs and enterprises seeking funding, but may also be on a non-competitive basis. Such funds generally provide relatively small grants, and operate according to specific criteria established for each fund. As instruments designed specifically to finance technology development and innovation, they can be targeted at specific industries or activities according to national economic policy priorities.

The purpose of this activity is to provide technical assistance to MInT to develop guidance and directives on the management of two financial mechanisms that will provide seed funding to start-ups and support SMEs:

- An Innovation Fund will be set up by MInT to provide seed funding to start-ups. The fund intends to support a maximum of 40 teams per year, providing them with 500,000 birr (an overall budget of 20mln birr). Guidelines will be developed on management procedures for the Fund.
- A loan guarantee scheme will be established by KOICA and administered by the Development Bank of Ethiopia (DBE), with deposit guarantee of approximately 1 million USD. The guarantee fund will be linked to MInT's Innovation Fund, and detailed operational manual will be developed to specify the management procedures of the guarantee fund.

➢ **Activity 5.2 Technical assistance provided to DBE on regulatory and operation matters**

This activity will entail an ongoing technical assistance to DBE on regulatory matters related to the management of the loan guarantee scheme, as well as any operational issues related to the scheme's administration.

➢ **Activity 5.3 Awareness raised and technical assistance to FSPs provided**

This activity will first identify financial service providers (FSPs) that could take part in the loan guarantee scheme, and build their capacity to use the guarantee scheme and leverage any additional funds. This will include awareness creation of the benefits of the guarantee scheme and financial products that can be offered to SMEs and start-ups. This activity will be undertaken in collaboration with UNCDF, which will be in charge of building the capacity of participating FSPs.

➢ **Activity 5.4 Loan guarantee fund allocated**

This activity will consist of the allocation of the loan guarantee fund, which will be managed by DBE. The disbursement will be carried out in an accountable manner, according to clear criteria, and in full compliance with the operational manual developed as part of Activity 5.1.

➢ **Activity 5.5 Support to ICT-based SMEs and startups to access the loan guarantee scheme**

In order to ensure that ICT-based SMEs and start-ups are able to take full advantage of the loan guarantee scheme, hands-on support will be provided to assist SMEs and start-ups apply for financing from participating FSPs. This activity will be undertaken by the certified BDS advisors employed by the project, in collaboration with UNCDF.

Output 6. Innovative financial mechanisms are made available to SMEs and start-ups

Funding for innovation is limited in Ethiopia, and financial service providers lack capacity and incentives to experiment with innovative financial products and risk management tools that would respond to the needs of SMEs and start-ups. Moreover, the lack of relevant "use cases" significantly cripples the adoption and usage of innovative financial products, especially among last mile customer segments.

This sub-output will be implemented by UNCDF. In line with its Country Strategy, it will aim to accelerate innovation in digital financial services and beyond with new or improved solutions for the benefit of SMEs and start-ups.

- **Activity 6.1 Support to FSPs to develop and pilot ICT-based loan products for SMEs (*through UNCDF*)**

This activity will facilitate the incubation of innovative financial products, and build the capacity of FSPs to integrate and pilot these products. Specific attention will be paid to mitigating the access to finance challenges that are particularly prevalent among SMEs and start-ups: inability to comply with traditional collateral requirements, lack of credit scoring, and lack of digital payment platforms.

UNCDF together with DBE will conduct needs assessment and market research on the opportunities and gaps there in to access finance for innovation and ICT based SMEs and businesses. Support will then be provided to the development of digital credit products and services for SMEs in the following areas:

- Develop credit scoring tools for SMEs and start-ups based on available good practices and innovative approaches (e.g., the psychometric testing approach employed by the World Bank in its Women Entrepreneurship Development Project).
- Develop prototypes and pilot crowd-funding platforms for SMEs and start-ups (in collaboration with a similar initiative led by JCC).
- Develop prototypes of lending products that avoid the traditional collateral requirement, such as revenue-based and profit-sharing financing.
- Pilot and scale digital application for business records and payments management, including records and basic bookkeeping, inventory management, etc.
- Develop prototypes and mobile banking applications adapted to the needs of SMEs and start-ups.

As part of this activity, UNCDF will work with a number of FSPs to pilot distinct products and assess whether and how they can be scaled up.

- **Activity 6.2 Support capacity building for FSPs and SMEs on innovative financial products**

In order to test the relevance and sustainability of the financial innovation pilots (Activity 6.1), UNCDF will build the capacity of both FSPs and SMEs to utilize these lending products. This will include two clusters of activities:

(1) Capacity building to participating FSPs to integrate and streamline the pilots into their systems, as well as regularly assess their performance and effectiveness in order to determine whether and how they can be improved and scaled up.

(2) Sensitization to SMEs and start-ups on the availability of innovative lending products, assisting them in applying for loans, using digital payment systems, etc. Women will constitute 60% of the beneficiaries of this activity.

Resources Required to Achieve the Expected Results

This project will have a dedicated Project Coordinator from UNDP, and joint activities with KOICA will also be coordinated by KOICA's Project Coordinator. The resource that will be required to achieve the expected results is USD 9,610,936.63. The project will have annual core allocations from UNDP and KOICA, and will mobilize resources from other development partners. The key inputs required for achieving results include human resources, material and equipment and partnerships. Currently, key positions required for the coordination of the project exist within the UNDP's management structure.

Project activities will be implemented by the following entities: UNDP and KOICA (relying on staff, or through international and local consultants); Entrepreneurship Development Center (EDC), which has been supported by UNDP in the past years, will be in charge of implementing capacity building activities for SMEs, start-ups, as well as institutional actors; UNCDF, which will be in charge for all activities related to the development and piloting of financial mechanisms, as well as associated training activities.

Regional activities will be supported and implemented through the regional offices of EDC. There is no expected need to establish new regional offices or branches for the project.

Partnerships

The project will be implemented through effective partnerships with all stakeholders in the innovation ecosystem, including development partners both for technical support and resource mobilization objectives. The Ministry of Innovation and Technology (MInT) is the primary implementing partner of UNDP.

The project will provide a coordination function to reduce duplication, promote synergy and avoid gaps in the innovation and entrepreneurship development efforts towards the goal of the GTP II targets. Partnerships will be developed with the following institutions.

Government entities

MInT, the main government entity in charge of innovation in Ethiopia, and Job Creation Commission which aims to support the expansion of SMEs and start-ups through a range of policy mechanisms and initiatives, will be the implementing partners of UNDP from the Government of Ethiopia and national beneficiaries for the implementation of this project. MInT will be the primary partner for activities under Output 1,2,4,5,6 that concern start-ups (improving the enabling policy environment, building capacity, facilitating access to finance, etc). The Job Creation Commission will be the primary implementing partner for activities under Output 3.

Given that the project aims to support the integration of innovation in both SMEs and start-ups in order to create jobs, additional government partners that will be closely engaged in the project include agencies whose mandate is to support jobs creation and SME growth:

;

- The Federal Job Creation and Food Security Agency (FUJC&FSA), which is accountable to the Ministry of Urban Development and Construction (MoUDC), and in charge of supporting the capacity and competitiveness for SMEs in non-manufacturing sectors;
- The Federal Small and Medium Manufacturing Industry Development Agency (FSMMIDA), which is accountable to the Ministry of Trade and Industry, and in charge of supporting SMEs in manufacturing sectors only.
- The Development Bank of Ethiopia, which will be in charge of managing the credit guarantee fund established as part of this project.

An effective innovation ecosystem draws on close linkages between the academia and the private sector. In order to strengthen these linkages and facilitate fruitful collaborations, the project will engage the Ministry of Science and Higher Education (MoSHE), which is responsible for all matters related to entrepreneurship education in higher education institutions, university-industry linkages, and general preparation of university graduates to the labor market.

UN bodies

All project activities that are related to access to finance will be closely coordinated with UNCDF, and the latter will serve as the implementing entity for activities under Output 5 and 6 —both development and piloting of innovative financial products, and building the capacity of FSPs, SMEs, and start-ups to utilize these products.

Project activities have been coordinated with other UN bodies that are engaged in the entrepreneurship and innovation ecosystem in Ethiopia, notably UNCTAD and UNIDO. Close coordination with both will continue throughout the duration of the project.

International development partners

International development partners will also be closely engaged in the implementation of project activities:

- KOICA: Some of project activities, as indicated above, will be implemented jointly with KOICA, as part of its project on "ICT-based Business Creation and SME Support Project to Create Quality Jobs in Ethiopia". These activities are jointly funded and will be implemented according to shared TORs and indicators.
- JICA leads several promising initiatives to support entrepreneurship and innovation, including the Ethiopian Kaizen Institute. Given the experience acquired by JICA and the cadre of BDS advisors it trained, the project will collaborate with JICA for capacity building activities for SMEs and start-ups.
- Project activities will also be coordinated with other development partners that support the development of entrepreneurship and innovation in the country (e.g., World Bank, IFC, USAID, GIZ). Experience sharing and information exchange with these partners will continue throughout the duration of the project to ensure complementarity, avoid duplication of resources, and maximize the efficiency of resource usage.
- The Israeli Embassy and Israel's Agency for International Development Cooperation (MASHAV) will also be closely engaged in the implementation of project activities by facilitating knowledge exchange and learning between Israeli and Ethiopian SMEs and start-ups, by conducting capacity building training in Ethiopia or in Israel and by sending delegations to Israel to explore Israel experiences.

National partners

Some of the project activities will be implemented through key national partners that contribute to the advancement of innovation and entrepreneurship in Ethiopia. These include:

(1) The Entrepreneurship Development Center, which was established in 2013 as a joint partnership between the Ministry of Urban Development and Housing, FEMSEDA, and the UNDP Ethiopia with the ambition to drive the SME sector, with branches in Addis Ababa and four other regions (Bahir Dar, Hawassa, Bishoftu, and Mekelle).

(2) The Ethiopian Chamber of Commerce and Sectoral Associations, which provides professional support to SMEs in specific sectors. The project will capacitate the Chamber of Commerce units to encourage market-driven growth among their members.

Risks and Assumptions

Key risks that threaten the achievement of development results in this project emanate from contextual and programmatic conditions. Contextual and external risks include: existence of multiple stakeholders and decision makers without a proper coordinating mechanism; weak institutional and technical capacity in the areas of entrepreneurship and innovation; weak linkage among institutional actors which hinders demand-driven innovation and private sector engagement; traditional financial system which excludes youth, women and start-ups more generally, and underdeveloped financial instruments and innovation. Project activities have been designed in a way that mitigates these risks, aiming to build entrepreneurial capacity, establish sustainable and viable platforms for institutional coordination, strengthen linkages among ecosystem actors, and pilot financial products that could be later handed over to national actors and scaled up.

Project-specific risks include the following: national ownership and commitment to the achievement of project objectives, establishing and operationalizing coordination mechanism and platforms in a timely and effective manner; delay in regulatory and legal reforms that promotes inclusion in the development landscape targeted to women and young entrepreneurs; and initiating, piloting and experimenting innovative solutions such as financial instruments (Annex: Risk Register). These risks will be mitigated by ensuring that all project activities are closely coordinated with relevant government agencies and implemented in partnership with government actors and with international donors. Regular and rigorous monitoring and evaluation of project activities by the Project Management Board will enable to identify cases in which project activities cannot be implemented as planned due to exogenous changes, and these activities will be revised and adapted as necessary.

The key assumptions underlying the theory of change/strategy for this Project are as follows:

1. Innovation and entrepreneurship are vehicles for economic growth, enhanced productivity, and job creation.

2. An ecosystem approach is required to boost innovation and entrepreneurship;

3. An innovation ecosystem needs an enabling environment, institutional capacity, coordination among key actors, fostering institutional linkage, and alleviating key challenges for innovative entrepreneurs through training, skill development, and devising financial mechanisms.

4. The project intervention is a sequence of activities that drive development results/outcomes, in line with the objectives and commitments of UNDAF and UNDP CPD, and national development priorities.

5. UNDP will spearhead the implementation of the project as an integrator, engaging all relevant partners and stakeholders.

6. UNDP in collaboration with Ministry of Innovation and Technology, and other key actors will establish a Project Management Team and appropriate governance mechanism based on a result-based framework.

Risks derived from COVID-19

The global COVID-19 pandemic also affected Ethiopia and the first confirmed positive case of the COVID-19 was found in Ethiopia on 13March2020. On 14April2020, the Government of Ethiopia declared a 5-month State of Emergency in an effort to limit the spread of the COVID-19, in accordance with Article 93 of the Constitution of the Federal Democratic Republic of Ethiopia. This project document development started before the spread of COVID-19 in Ethiopia. The key risks derived from COVID-19 that may hinder smooth implementation of the project include exposure of project stakeholders to the infection of COVID-19; restriction on domestic and international movement; restrictions imposed by the Government of Ethiopia to stop the spread of COVID-19, restrictions imposed by the governments of the countries that may relate to the implementation of the project to stop the spread of the COVID-19. Until the COVID-19 pandemic settles down, the project will be implemented with appropriate planning to mitigate these risks.

Stakeholder Engagement

Ministry of Innovation and Technology will be the Implementing Partner of the project. Therefore, it is through MInT that the other government agencies and national partners ware engaged in the project. The project has two target groups of direct beneficiaries:

1. Growth-oriented SMEs and start-ups are the primary beneficiaries of the project. Within this group, special efforts will be invested in engaging female and young entrepreneurs. For joint activities with KOICA, the focus will primarily be on ICT-based SMEs, while other activities may engage additional groups of SMEs. SMEs and start-ups that are eligible to the project's support will be identified through awareness raising efforts by the EDC and KOICA, which will operate a dedicated ICT innovation center. KOICA's selection process will rely on recommendation from innovation hubs and accelerators.

2. Key national institutions that are part of the entrepreneurship and innovation ecosystem are the second beneficiary target group. The project will build the capacity of these institutions, based on their mandates, needs, and priorities.
    - These institutions the primary government agencies that drive the entrepreneurship and innovation ecosystem in Ethiopia, namely MInT, MoSHE, JCC, FUJC&FSA, FSMMIDA, and DBE.
    - Additional national partners that will benefit from project interventions include the EDC, which will serve as the implementing entity for some of the project activities; UIL departments in universities whose capacity will be strengthened; financial service providers that will be selected for the piloting of innovative financial mechanisms; professional associations that will obtain capacity building support; and regional technology and innovation agencies that will benefit from improved opportunities for coordination.

Stakeholders and partners that will be engaged in the implementation of the project were identified in a thorough manner during multilateral and bilateral consultation meetings, and as part of the preparation of the Innovation Ecosystem Assessment, commissioned by UNDP.

South-South and Triangular Cooperation (SSC/TrC)

The project will look towards knowledge sharing globally and regionally to advance experience exchange, technology transfer, and gain lessons on promoting regional interconnection. There also exists ample opportunity for drawing experiences from other countries, on issues such as the establishment of coordination platforms to enhance the impact of innovation policies, development of innovative financial products, strengthening university-industry linkages, etc. Countries of particular interest for SSC include Kenya, Nigeria, Rwanda, and Brazil.

Knowledge

The project will support interventions to develop the entrepreneurial and innovation landscape in the country and also support creation of employment opportunities and wealth, particularly for youth and women, thereby contributing to economic development. It will strengthen the capacity of its partners and clients thus ensuring improvement of production, productivity and competitiveness. As a result, the project is expected to generate significant and valuable lessons learnt and good practices that can be shared through knowledge exchange platforms for replication and scaling up nationwide.

In this regard, the project will support the establishment of knowledge platforms, stakeholder forums, national and regional dialogues. All documents produced by the project will be widely shared, stored in a database and made accessible to all partners and stakeholders as well as interested users. Such documents will include periodic reports and newsletters, publications, communication platforms such as website and social media, as well as various media products.

The coordination platforms that will be set up as part of this project will also encourage and facilitate regular sharing of lessons learnt and best practices developed among international, national, and regional actors, as well as private service providers. This will enable all ecosystem actors the opportunity to learn from each other, and adopt and pilot any new approaches that are appropriate to their specific needs.

Sustainability and Scaling Up

The project will be implemented relying on existing structures that the Government of Ethiopia (GoE) has put in place, and will avoid the creation of any duplicative or parallel structures. Some activities/interventions are directly linked to capacity enhancement of such government structures and platforms:

- Capacity building activities will aim to strengthen the capacity of UIL departments, professional industry associations, Science Cafés, youth centers, and Centres of Excellence for Entrepreneurship. These institutions will be able to sustain and scale up project interventions.
- All coordination platforms that will be set up as part of the project will be managed by national champions (primarily MInT).
- Pilots of innovative financial products will engage local financial service providers and seek to examine the feasibility of fully embedding and scaling up these products within the FSPs.
- The capacity of national entrepreneurship service providers (notably EDC) will also be strengthened and scaled.

Given GoE's commitment to innovation and to the development of the SME and start-up sector in alignment with other national development programmes, UNDP is optimistic that proposed interventions will bear tangible results in the coming three years. Notwithstanding, sustainability gains made through the project among other things require building strong institutional and technical capacity within the implementing institutions.

To ensure sustainability after the project's completion, a detailed exit strategy will also be developed, focusing on:

- Assessing the project performance over a period of time to allow project staff and partners to make informed decisions on any changes or adaptations that may need to be made to meet desired goals and objectives.
- Building the capacity of government institutions and implementing project activities through national institutional stakeholders.
- Adapting project activities and target audiences to any exogenous changes and conditions.
- Developing a detailed description of what services and activities are planned for sustainability. All activities may not need to be sustained; but focus on the ones that are intended to achieve desired outcomes.
- Identifying what is needed to manage and operate the selected activities. Once project activities have been established, it may be determined that either a smaller or larger commitment of management resources, including the number of paid staff will need to change.
- Identifying national and local champions--locating and encouraging organizations and interest groups that benefit from the project activities or who are interested in the target groups being served, and engaging them in the implementation of the project, as feasible.

IV. Project Management

Cost Efficiency and Effectiveness

In order to realize the Project's objectives and ensure cost-efficiency and effectiveness in the implementation process the following approaches are employed.

- Interventions in this Project were identified based on a rigorous assessment of the innovation ecosystem and best practices, which were translated into outcomes/outputs to optimize the development result in an inclusive and sustainable manner.
- Entry points in the Project are aligned with UNDAF's objectives, UNDP's Country Programme, and national development needs, as identified during multiple bilateral meetings with key actors in the innovation ecosystem.

- Estimated budget is allocated for output/activity based on their relevance to the Project outcome and mobilize funds.
- Efforts are made to leverage partnership with other initiatives/projects to create synergies, drive changes in the development landscape, and promote value-for-money. Specifically, a significant number of Project activities has been aligned with new KOICA's project on "ICT-based Business Creation and SME Support Project to Create Quality Jobs in Ethiopia", and will be financed by KOICA.
- The project is also open for contribution from other interested development partners, as well as philanthropic or private sector organizations. Such pooling of resources will mitigate risks, increase visibility and transparency, thereby improving the efficiency and effectiveness of the project.
- In order to ensure sustainability and country ownership, UNDP will sign an agreement with MInT and other development actors for joint operation of the Project.

Project Management

The project operational coordination will be located in the UNDP Country Office and will be managed by a Project Coordinator, who will be accountable to the Team Leader of UNDP's Inclusive Growth and Sustainable Development Unit.

Please see more details on project management arrangements in Section VIII. Governance and Management Arrangements.

V. Results Framework

Intended Outcome as stated in the UNDAF/Country [or Global/Regional] Programme Results and Resource Framework:

UNDAF: Pillar 1, Outcome 2: By 2020, private- sector driven manufacturing and service industry sector growth is inclusive, sustainable, competitive and job rich.

CPD: By 2025, all people in Ethiopia benefit from an inclusive, resilient and sustainable economy. (UNDP STRATEGIC PLAN OUTCOME: Advance poverty eradication in all its forms and dimensions.)

Outcome indicators as stated in the Country Programme [or Global/Regional] Results and Resources Framework, including baseline and targets:

UNDAF

Applicable UNDAF's Outcome Indicator 2: Share of service sector in the GDP

Baseline: 46% (MOFED 2013)

Target: GTPII

Applicable UNDAF Output: 2.1 Micro, Small and Medium Scale Enterprises (MSME's) have increased and expanded access to innovative, inclusive, and client-oriented financial products and services;

Applicable UNDAF Output Indicators, Baseline, Target:

- **Indicator: 2.1.1:** No. of MSMEs with access to new financial products/services
- **Baseline 2.1.1:** 0
- **Target 2.1.1:** 100

- **Indicator 2.1.2:** No of targeted financial institutions which have innovative and gender responsive financial products for MSMEs
- **Baseline 2.1.2:** 0
- **Target 2.1.2:** 4

- **Indicator 2.1.4:** Number of innovative financial products offered by financial institutions
- **Baseline 2.1.4:** 0
- **Target 2.1.4:** 5

Applicable UNDAF Output: 2.3 Private sector enterprises have improved skills, knowledge and technological capacity for increased productivity and competitiveness

Applicable UNDAF Output Indicators, Baseline, Target:

- **Indicator 2.3.3:** Number of entrepreneurs (disaggregated by sex) with strengthened business knowledge, skills and capacity
- **Baseline 2.3.3:** 23,000 (EDC 2014) Women 7,785 Men 15,215
- **Target 2.3.3:** 150,000 Men 150,000 Women

- **Indicator 2.3.4:** Number of entrepreneurs (disaggregated by sex) provided with investment advisory services
- **Baseline 2.3.4:** Men 2,168 Women: 2,359
- **Target 2.3.4:** Men: 40,000 Women:40,000

- **Indicator 2.3.6:** Industrial information system in place/established/ functional
- **Baseline 2.3.6:** 0
- **Target 2.3.6:** 1 fully functional system

CPD

Applicable CPD Outcome Indicator: 2.1. Proportion of SDGs aligned with national development plan (modified SP 1.10)
Baseline 2.1. (2017): 70%
Target 2.1. : 80%

Applicable CPD Outcome Indicator: 2.2 Unemployment rate, by sex (SDG 8.5.2)
Baseline 2.2. (2018): 19.1% (Urban), 27% (Female)
Target 2.2. : 10% (Urban) 10% (Female)

Applicable Output(s) from the UNDP Strategic Plan:

Project title and Atlas Project Number:

EXPECTED OUTPUTS	OUTPUT INDICATORS	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)						DATA COLLECTION METHODS & RISKS
			Value	Year	Year 1	Year 2	Year 3	Year 4	Year 5	FINAL	
Output 1. Enabling policy environment for ICT based start-ups and SMEs to innovate is supported	*1.1 Diagnostics reports and perception survey of the start-up ecosystem in Ethiopia which includes barriers faced by women entrepreneurs produced. (In Year 5: perception survey)*	MInT	0	2020	1	1			1	3	
	1.2 Number of Policy guidelines developed to encourage innovation by SMEs and start-ups, focusing on women and the youth, linkages between universities and the private sector	Government partners (MInT, JCC, FUJC&FSA, MoSHE)	0	2020	2	2	2			6	
	1.3 No. of government leaders and technical staff with enhanced awareness on ICT based SMEs and Start-ups support	MInT	0	2020	10	20	25	15	5	75	
	1.4 % of trainees satisfied with the training program assessed by pre and post test	MInT	0	2020	75%	80%	85%	85%	85%	85%	
Output 2. Institutional	*2.1 Extent of enhanced interaction and collaboration among innovation stakeholders*	MInT	0	2020	The refere nce	The refere nce	The refere nce	The refere nce	The refere nce	The reference data will be	

coordination among innovation ecosystem actors is facilitated					data will be provided at a later stage	data will be provided at a later stage	data will be provided at a later stage	data will be provided at a later stage	data will be provided at a later stage	provided at a later stage	
	2.2 Number of knowledge products exchanged through regional innovation coordination platform	MInT	0	2020	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	
	2.3 Extent of *harmonization among MiNT and development partners through innovation working group under the DAG*	MInT	0	2020	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	
Output 3. Capacity of SMEs and start-ups is strengthened	*3.1 No. of enterprises/individuals benefited from training and mentorship program (60% women).*	EDC	???	2020	500	2,000	2,000	2,000	2,000	*8,500*	
	3.2 No. of innovations (inc. products, processes, marketing approaches) introduced by enterprises supported by innovation agents, annually.	EDC	0	2020	200	800	1500	1500	2000	6,000	
	3.3 No. of knowledge and/technologies that can be adapted to Ethiopia identified by twinning arrangement and experience visit annually .	MInT	0	2020	5	10	15	15	15	60	
	3.4 No. of bulletins and information platform on innovation and entrepreneurship distributed/operational to SMEs and start-ups	MInT	0	2020	The reference data will be provided at	The reference data will be provided at	The reference data will be provided at	The reference data will be provided at	The reference data will be provided at	The reference data will be provided at a later stage	

					a later stage	a later stage	a later stage	a later stage	a later stage		
Output 4. Capacity of key institutions in the innovation and entrepreneurship ecosystem is strengthened	*4.1 Number of Enhanced university-industry linkage facilitated by university-industry linkage departments.*	MoSHE, EDC	0	2020	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	The reference data will be provided at a later stage	
	4.2 No. of market assessment reports produced	EDC	0	2020	1	3	3	3	3	13	
	4.3 No. of Science Cafés and youth centers with enhanced capacity to leverage itself for innovation and entrepreneurship among the youth	EDC	0	2020	2	2	2	2	2	10	
	4.4 No. of Centers of Excellence for Entrepreneurship with strengthened capacity to link private sector and academia	EDC	0	2020	2	2	2	2	2	10	
Output 5. Capacity to operate the Innovation Fund and Credit Guarantee Fund is enhanced	*5.1 No. of policy guidelines developed for innovation fund management and loan guarantee scheme*	MInT	0	2020	0	1	1			2	
	5.2 No. of loans provided to ICT based SMEs and start-ups through the loan guarantee scheme.	Selected FSP	0	2020		25	25			50	
	5.3 No. of FSPs that use the loan guarantee scheme and leverage 50% of the fund.	DBE	0	2020		2	3	3	2	10	
	5.4 No. of training participants with enhanced awareness on the management of the guarantee fund. (60% women)	UNCDF	0	2020		10	15	15	10	50	
	5.5 Default rate of guarantee fund sustained under 10% of loan disbursed	DBE	0	2020		<10%	<10%	<10%	<10%	<10%	
Output 6. Innovative	*6.1 No. of FSPs developing ICT-based loan products.*	UNCDF	0	2020	2	2	2	2	2	10	

financial mechanisms are made available to SMEs and start-ups	*6.2 No. of ICT-based loan products piloted.*	UNCDF	0	2020	2	2	2	2	2	10	
	6.3 No. of training participants from FSPs on the ICT-based loan products (60% women)	UNCDF	0	2020	10	10	10	10	10	50	
	6.4 No. of training participants from SMEs and start-ups with enhanced awareness on the ICT-based loan products (60% women)	UNCDF	0	2020	50	50	50	50	50	250	
	6.5 No. of SMEs and start-ups that received funding through the pilots of ICT-based loan products (60% women)	UNCDF	0	2020		20	20	20	20	80	

VI. Monitoring and Evaluation

In accordance with UNDP's programming policies and procedures, the project will develop, use, and report on a rigorous results-based management framework consistent with UNDP's monitoring and evaluation procedures as well as policies. Additional procedures may be developed and agreed to by the implementing agents, project partners, and UNDP.

The project will be monitored by UNDP management throughout implementation and, reviewed on a quarterly basis by the Project Management Board. The focus of M&E will be at the outcome level to understand the impact the programme has had. To ascribe the relevant importance to these processes and to facilitate synthesis and interpretation of progress and performance, the project will be guided by:

i. Annual Work Plans

ii. Performance Monitoring & Evaluation Framework, which defines the baselines, impact, outcomes and outputs with associated indicators and means of verification as based on the project's Results and Resources Framework. Specific attention will be given to monitoring and evaluating progress against well-defined baselines and towards increased capacity of MInT and other government agencies throughout the programme;

iii. Performance Monitoring & Evaluation Plan, which schedules all major M&E activities;

iv. Performance Monitoring & Evaluation System with the tools to be used by the PMT in monitoring implementation. Systems will include assets and inventory controls, financial and narrative reports, risk logs and monitoring, and evaluations for generating feedback and lessons. The M&E System will also clarify the monitoring, review and evaluation roles and responsibilities at the different levels of the Programme for internal monitoring. If needed, the external independent third-party monitoring system of the Country Office may be employed.

Tools that will be used for M&E include:

a. Minutes of Project Management Board meetings, which will be used to ensure systematic planning, follow-up and results focus;

b. Annual Project Reports – both narrative and financial – that rate output to outcome progress and make decisions on policy issues;

c. A mid-term UNDP-KOICA project review; and

d. A final independent project evaluation to evaluate the implementation and the overall contributions of the project.

Plans for these processes and documentary results will be produced within the first three months of the project by the Project Manager for endorsement and approval by the Project Management Board as part of the development of the work plans for the project.

All project activities will be closely monitored by UNDP Country Office. To this effect, a project officer from the Inclusive Growth and Sustainable Development Unit and another from PMSU will backstop the programme and support the Project Manager in the attainment of the established project outputs. The project shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of UNDP.

During the delivery of the assistance, UNDP will also closely engage with KOICA and UNCDF. This will include status reports on a quarterly or more regular basis to the Project Management Board, which will be kept informed of any contemplated project revisions or extensions in order to determine whether a further needs assessment is required or whether the revision or extension can proceed without such an assessment.

Monitoring Activity	Purpose	Frequency	Expected Action	Partners (if joint)	Cost (if any)
Track results progress	Progress data against the results indicators in the RRF will be collected and analysed to assess the progress of the project in achieving the agreed outputs.	Quarterly, or in the frequency required for each indicator.	Slower than expected progress will be addressed by project management.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	M&E Officer; Field visits.
Monitor and Manage Risk	Identify specific risks that may threaten achievement of intended results. Identify and monitor risk management actions using a risk log. This includes monitoring measures and plans that may have been required as per UNDP's Social and Environmental Standards. Audits will be conducted in accordance with UNDP's audit policy to manage financial risk.	Quarterly	Risks are identified by project management and actions are taken to manage risk. The risk log is actively maintained to keep track of identified risks and actions taken.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	
Learn	Knowledge, good practices and lessons will be captured regularly, as well as actively sourced from other projects and partners and integrated back into the project.	At least annually	Relevant lessons are captured by the project team and used to inform management decisions.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	Project coordinator
Annual Project Quality Assurance	The quality of the project will be assessed against UNDP's quality standards to identify project strengths and weaknesses and to inform management decision making to improve the project.	Annually	Areas of strength and weakness will be reviewed by project management and used to inform decisions to improve project performance.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	Project coordinator
Review and Make Course Corrections	Internal review of data and evidence from all monitoring actions to inform decision making.	At least annually	Performance data, risks, lessons and quality will be discussed by the project board and used to make course corrections.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	M&E officer
Project Report	A progress report will be presented to the Project Board and key stakeholders, consisting of progress data showing the results achieved against pre-defined annual targets at the output level, the annual project quality rating summary, an updated risk long with mitigation measures, and any evaluation or review reports prepared over the period.	Annually, and at the end of the project (final report)	Gathering of data; report writing.	Implementing partners (UNDP, UNCDF, KOICA, MInT)	M&E officer; Project coordinator
Project Review (Project Management Board)	The project's governance mechanism (i.e., project board) will hold regular project reviews to assess the performance of the project and	At least annually	Any quality concerns or slower than expected progress will be discussed by the project	Implementing partners	M&E officer

	review the Multi-Year Work Plan to ensure realistic budgeting over the life of the project. In the project's final year, the Project Board shall hold an end-of project review to capture lessons learned and discuss opportunities for scaling up and to socialize project results and lessons learned with relevant audiences.		management board and management actions agreed to address the issues identified.	(UNDP, UNCDF, KOICA, MInT)	

Evaluation Plan

Evaluation Title	Partners (if joint)	Related Strategic Plan Output	UNDAF/CPD Outcome	Planned Completion Date	Key Evaluation Stakeholders	Cost and Source of Funding
Mid-Term Evaluation	Implementing partners (UNDP, UNCDF, KOICA, JICA, MInT)		UNDAF Outcome 2	January 2023	MInT, MoSHE, JCC, FUJC&FSA UN Agencies KOICA, JICA	USD 35,000 Project funds
Final Evaluation	Implementing partners (UNDP, UNCDF, KOICA, JICA, MInT)		UNDAF Outcome 2	October 2025	MInT, MoSHE, JCC, FUJC&FSA UN Agencies KOICA, JICA	USD 50,000 Project funds

VII. MULTI-YEAR WORK PLAN

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year					RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4	Y5		Funding Source	Budget Description	Amount
Output 1. Enabling policy environment for ICT based start-ups and SMEs to innovate is supported	1.1 Diagnostics and a perception survey of the start-up Ecosystem in Ethiopia with focus on primary barriers faced by women entrepreneurs	60,000	30,000			20,000	MInT	UNDP: 110,000	International and local consultants	110,000
Gender marker: GEN2	1.2 Technical assistance to government entities to encourage innovation by SMEs and start-ups, focusing on women and the youth	75,000	75,000	75,000			MInT	Unfunded	International and local consultants	225,000
	1.3 Technical assistance to the Ministry of Science & Higher Education to develop policies and regulations that strengthen linkages between universities and the private sector	50,000	50,000				MInT	UNDP: 100,000	International and local consultants	100,000
	1.4 Capacity building training for government leadership (including regions) on ICT-based SMEs and start-ups promotion	50,000	100,000	100,000			MInT	KOICA: 250,000	International and local consultants, materials, training facilities, travel, communications	250,000
	1.5 Capacity building training for technical staff (including regions) on ICT based-SMEs and start-ups development (joint activity with KOICA)	50,000	100,000	100,000	100,000	50,000	MInT	KOICA: 400,000	International and local consultants, materials, training facilities, travel, communications	400,000
		Sub-Total for Output 1.								1,085,000

Output 2. Institutional coordination among innovation ecosystem actors is facilitated Gender marker: GEN1	2.1 Operationalization of an innovation and technology council, including periodic joint meetings among actors in the ecosystem (On KOICA proposal, Activity 1.3.1. Innovation and technology council established and get operational, and Periodic joint meetings among actors in the ecosystem organized (240K)	40,000	40,000	40,000	40,000	40,000	MInT	KOICA: 100,000 UNDP: 100,000	Local consultants, materials, meeting facilities	200,000
	2.2 Operationalization of a regional coordination platform on innovation and technology	30,000	20,000	20,000	20,000	20,000	MInT	Unfunded	Local consultants, materials, meeting facilities, travel	110,000
	2.3 Setting up and supporting an innovation working group under the DAG structure (On KOICA proposal, activity 1.3.2. Set up and support of innovation working group under the DAG structure (150K)	30,000	30,000	30,000	30,000	30,000	MInT	KOICA: 100,000 UNDP: 50,000	Local consultants, materials, meeting facilities	150,000
		Sub-Total for Output 2.								460,000
Output 3. Capacity of SMEs and start-ups for entrepreneurship and innovation is strengthened Gender marker: GEN2	3.1 Provision of customized entrepreneurship training to priority SMEs and start-ups through the Entrepreneurship Development Center (EDC)	250,000	250,000	250,000	250,000	250,000	JCC	Unfunded	Local consultants, materials, training facilities, travel, communications	1,250,000
	3.2 Provision of business development services (BDS) to priority SMEs and start-ups	200,000	200,000	200,000	200,000	200,000	JCC	Unfunded	Local consultants, materials, travel, communications	1,000,000
	3.3 Provision of training of trainers and business development service advisors	50,000	50,000	50,000	50,000	50,000	JCC	Unfunded	Local consultants, materials, training materials, communications	250,000

	3.4 Operationalization of a mentorship program through the EDC	20,000	20,000	20,000	20,000	20,000	JCC	Unfunded	Local consultants, materials, travel, communications	100,000
	3.5 Operationalization of an "innovation agents" program to facilitate technology transfer for SMEs	100,000	100,000	100,000	100,000	100,000	JCC	Unfunded	International and local consultants, materials, travel, communications	500,000
	3.6 Facilitation of twinning among selected start-up and SMEs in Ethiopia and that of in developed countries (In KOICA proposal, Activity "1.2.1 Twinning facilitated among selected SMEs in Ethiopia and that of in developed countries)	75,000	75,000	75,000	75,000	70,000	JCC	UNDP: 220,000 KOICA: 150,000	International consultants, materials, travel, per diem, communications	370,000
	3.7 Organization of experience sharing visits for selected SMEs		70,000	70,000	70,000	70,000	JCC	UNDP: 50,000 KOICA: 230,000	International and local consultants, materials, travel, communications	280,000
	3.8 Supporting market linkages	20,000	20,000	20,000	20,000	20,000	JCC	UNDP: 100,000	Local consultants, materials, travel, communications	100,000
	3.9 Setting up an information platform on innovation	TBC	TBC	TBC	TBC		JCC	KOICA	IT experts,	250,000
	3.10 Organization of annual competitions to incentivize market-driven innovations by start-ups	30,000	30,000	30,000	30,000	30,000	JCC	Unfunded	Local consultants, materials, awards, travel, communications	150,000
		Sub-Total for Output 3.								4,250,000

Output 4. Capacity of key institutions in the innovation and entrepreneurship ecosystem is strengthened Gender marker: GEN1	4.1 Providing capacity building support to selected university-industry linkage departments (by the EDC)	25,000	25,000	25,000	25,000	25,000	MInT	Unfunded	Local consultants, materials, communications	125,000
	4.2 Technical assistance to professional associations (e.g., Chamber of Commerce) to undertake market assessments for their members	25,000	25,000	25,000	25,000	25,000	MInT	Unfunded	International and local consultants, materials	125,000
	4.3 Capacity building to Science Cafés and youth centers in selected regions to provide market-driven entrepreneurship services	25,000	25,000	25,000	25,000	25,000	MInT	Unfunded	Local consultants, materials, communications, travel	125,000
	4.4 Capacity building to selected Centers of Excellence for Entrepreneurship to support market-driven innovations among university students	25,000	25,000	25,000	25,000	25,000	MInT	Unfunded	Local consultants, materials, communications, travel	125,000
		Sub-Total for Output 4.								500,000
Output 5. Capacity to operate the Innovation Fund and Credit Guarantee Fund is enhanced Gender marker: GEN1	5.1 Support MInT to develop a directive on the management of innovation fund as well as loan guarantee scheme (In KOICA proposal, Activity 4.1.1. Support MInT to develop a directive on the management of innovation fund as well as loan guarantee scheme(200K)	50,000	50,000	50,000	50,000		MInT	UNDP: 100,000 KOICA: 100,000	International and local consultants	200,000
	5.2 Technical assistance provided to DBE on regulatory and operation matters (In KOICA proposal, Activity 4.1.2. Technical assistance provided to DBE on regulatory and operation matters(100K))		35,000	35,000	20,000	10,000	MInT	KOICA: 100,000	International and local consultants, material costs, meeting facilities	100,000

	5.3 Pre-investment technical assistance given to FSPs and BP developed (In KOICA proposal, Activity 4.1.3. Pre-investment technical assistance given to FSPs and BP developed(100K)	25,000	75,000				MInT	UNDP: 50,000 KOICA: 50,000	International and local consultants, material costs, meeting facilities	100,000
	5.4 Credit risk guarantee fund allocation (In KOICA proposal, Activity 4.1.4. Credit risk guarantee fund allocated and disbursed(1,150K)	1,150,00 0					MInT	KOICA: 1,000,000 Unfunded 150,000	funds allocation to Credit Guarantee Fund, overhead cost	1,150,000
	5.5 Support to ICT-based SMEs and start-ups to access the loan guarantee scheme to finance their business (In KOICA proposal, Activity 4.1.5. Facilitate at least 100 innovation-based start-ups and SMEs to have access to loan guarantee scheme to finance their business)		40,000 for start-ups 20,000 for SMEs	30,000 for start-ups 10,000 for SMEs			MInT	UNDP: 40,000 KOICA: 60,000	International and local consultants, material costs, training facilities, travel	100,000
		Sub-Total for Output 5.								1,650,000
Output 6. Innovative financial mechanisms are made available to SMEs and start-ups	6.1 Support to FSPs to develop and pilot ICT-based loan products for SMEs (through UNCDF)	60,000	120,000	50,000	40,000	8,818.36	MInT	UNDP: 60,000 KOICA: 218,818.36	International and local consultants, material costs, loan cost,	278,818.36
Gender marker: GEN2	6.2 Capacity building for FSPs and SMEs on innovative financial products (40% women)	50,000	50,000	50,000			MInT	UNDP: 50,000 Unfunded: 100,000	International and local consultants, material costs, training facilities, travel	150,000
		Sub-Total for Output 6.								428,818.36
Deployment of Project Coordinator *(for joint engagement with KOICA)*								KOICA: 280,000		280,000
Monitoring and reporting of Project activities (for joint engagement with KOICA)								KOICA: 20,000 UNDP: 41,000		61,000

Performance Evaluation (for joint engagement with KOICA)	EVALUATION							KOICA: 36,000 UNDP: 64,000		100,000
Supplies and Accessories (for joint engagement with KOICA)								KOICA: 22,160 UNDP: 25,000		47,160
Programmatic Cost Total										**8,861,978.36**
GMS (8%) (for joint engagement with KOICA)								KOICA: 249,358.27 Unfunded: 363,679.94		613,038.21
DPC (3%)								UNDP: 30,000 KOICA: 93,509.35 Unfunded: 136,379.98		259,889.33
M&E (1%)								UNDP: 10,000 KOICA: 31,169.78 Unfunded: 45,459.99		86,629.77
TOTAL										**9,821,535.66**

VIII. GOVERNANCE AND MANAGEMENT ARRANGEMENTS

The project will be implemented by the government agencies, however, certain activities can be executed directly by UNDP if needed. The Ministry of Innovation and Technology and Job Creation Commission will act as the project implementing partner (agency and beneficiary).

The implementation follows the principles of the Paris Declaration on Aid Effectiveness. The described modality is designed to ensure a demand driven approach, ownership by beneficiaries, participation of stakeholders, capacity building in beneficiary institutions, focus on results, alignment with the national government priorities and harmonization with other donors. In order to ensure UNDP's ultimate accountability, the PMB's decisions will be made in accordance with corporate UNDP standards that shall ensure best value to money, fairness, integrity, transparency, and effective international competition.

The project will be directed by a Project Management Board (PMB), which will be comprised of representatives of the Ministry of Innovation and Technology, Job Creation Commission, Ministry of Finance, the primary national beneficiary counterparts, UNDP, UNCDF, KOICA, and any other future project donors. The PMB is formed at the commencement of the project and is responsible for providing policy and strategic guidance to the project, as well as performing a coordination role among the donors of the project (donors are members of the PMB).

The PMB will be responsible for the following tasks:

- Overall leadership, guidance and direction in successful delivery of project outputs and activities;
- Approval of annual work plans, budgets, annual reviews, and other reports as needed;
- Regular monitoring of project implementation, management risks, and any other relevant issues to ensure that the project remains on track vis-à-vis the goals, objectives, results defined in the project document.
- Strategic decisions by consensus, including the approval of project substantive revisions (i.e., changes in the project document), guidance on unexpected risks and development of mitigation measures.

The PMB will meet on a quarterly basis, with ad-hoc meetings organized as necessary, producing Minutes to be signed by all PMB members.

The overall project carried out by a Project Coordinator who will report to the Team Leader of the UNDP's Inclusive Growth and Sustainable Unit. The Project Coordinator will:

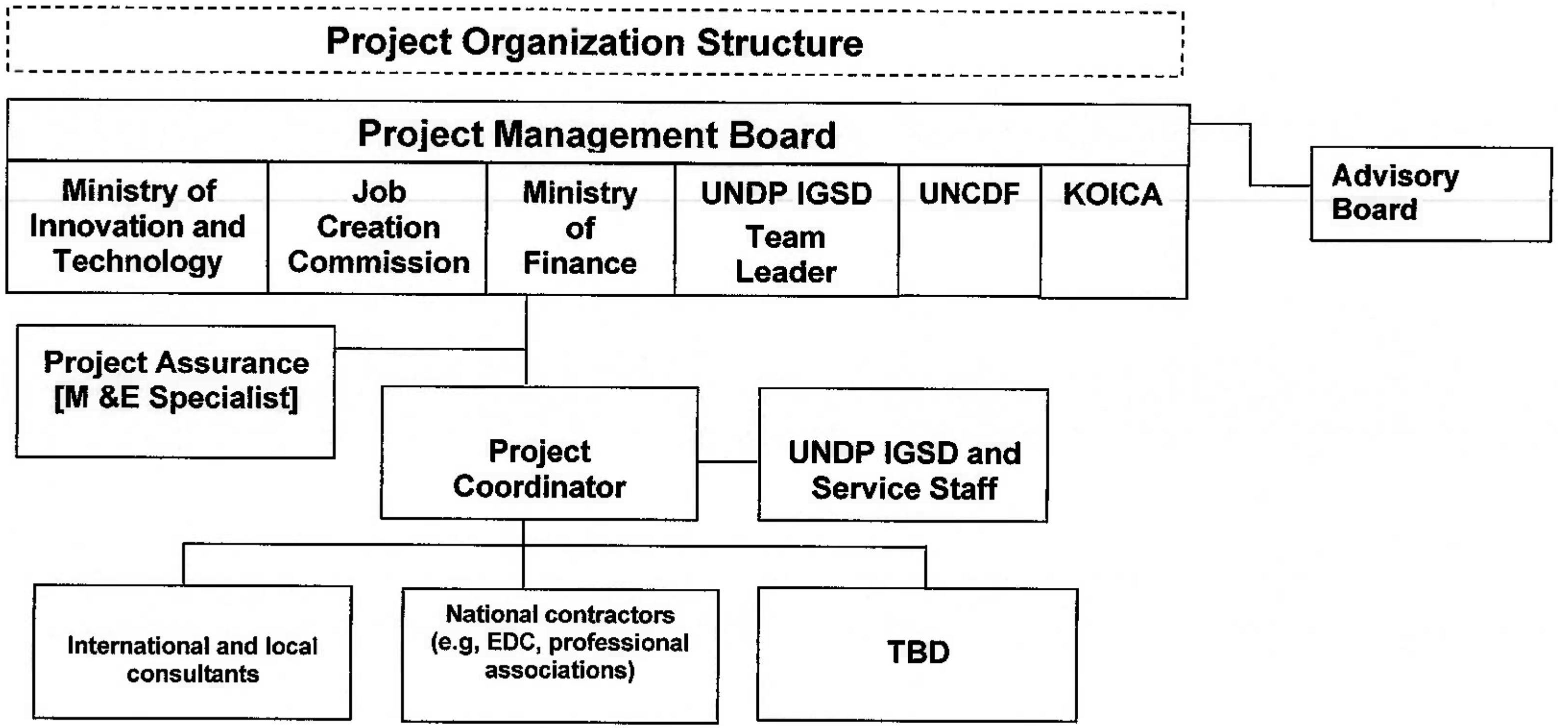
- Facilitate and closely oversee the implementation of project activities by consultants and contractors in line with the multi-year work plan;

- Regularly liaise with key government partners to ensure that project activities are implemented in line with the national agenda and priorities;
- Closely collaborate with key international development partners to amplify the impact of project activities and avoid duplications;
- Develop timely quarterly, annual and ad-hoc project implementation reports.
- Undertake any ad hoc tasks related to the implementation needs of the project.

Advisory Board will be established for the Project to provide periodic consultations on issues related to the project's strategic direction. Membership in the Advisory Board may be offered to experts from UNDP, private sector and civil society partners in donor and beneficiary countries, academia and to representatives of the beneficiary institutions. The Advisory Board will join PMB meetings on a bi-annual basis.

The monitoring and reporting roles of MInT, JCC and other primary national beneficiary counterpart will be carried out as per the "Program Implementation Manual for United Nations Agencies Assisted Programs in Ethiopia".

All project activities will be closely monitored by UNDP Country Office. To this effect, a project officer from the IGSD Unit and another from PMSU will backstop the programme and support the Project Coordination in the attainment of the established project outputs. The project shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of UNDP. Audit will be undertaken annually and at the project close-out based, in line with the Monitoring and Evaluations arrangements specified in this project document.


Project Organization Structure
Project Management Board
Ministry of Innovation and Technology
Job Creation Commission
Ministry of Finance
UNDP IGSD Team Leader
UNCDF
KOICA
Advisory Board
Project Assurance [M &E Specialist]
Project Coordinator
UNDP IGSD and Service Staff
International and local consultants
National contractors (e.g, EDC, professional associations)
TBD

IX. LEGAL CONTEXT

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of Ethiopia and UNDP, signed on (26th February 1981). All references in the SBAA to "Executing Agency" shall be deemed to refer to "Implementing Partner."

This project will be implemented by UNDP (Implementing Partner) in accordance with its financial regulations, rules, practices and procedures only to the extent that they do not contravene the principles of the Financial Regulations and Rules of UNDP. Where the financial governance of an Implementing Partner does not provide the required guidance to ensure best value for money, fairness, integrity, transparency, and effective international competition, the financial governance of UNDP shall apply.

X. RISK MANAGEMENT

1. UNDP as the Implementing Partner will comply with the policies, procedures and practices of the United Nations Security Management System (UNSMS).

2. UNDP as the Implementing Partner will undertake all reasonable efforts to ensure that none of the [project funds][7] [UNDP funds received pursuant to the Project Document][8] are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml. This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

3. Social and environmental sustainability will be enhanced through application of the UNDP Social and Environmental Standards (http://www.undp.org/ses) and related Accountability Mechanism (http://www.undp.org/secu-srm).

4. UNDP as the Implementing Partner will: (a) conduct project and programme-related activities in a manner consistent with the UNDP Social and Environmental Standards, (b) implement any management or mitigation plan prepared for the project or programme to comply with such standards, and (c) engage in a constructive and timely manner to address any concerns and complaints raised through the

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[7] To be used where UNDP is the Implementing Partner

[8] To be used where the UN, a UN fund/programme or a specialized agency is the Implementing Partner

Accountability Mechanism. UNDP will seek to ensure that communities and other project stakeholders are informed of and have access to the Accountability Mechanism.

5. In the implementation of the activities under this Project Document, UNDP as the Implementing Partner will handle any sexual exploitation and abuse ("SEA") and sexual harassment ("SH") allegations in accordance with its regulations, rules, policies and procedures.

6. All signatories to the Project Document shall cooperate in good faith with any exercise to evaluate any programme or project-related commitments or compliance with the UNDP Social and Environmental Standards. This includes providing access to project sites, relevant personnel, information, and documentation.

7. UNDP as the Implementing Partner will ensure that the following obligations are binding on each responsible party, subcontractor and sub-recipient:

   a. Consistent with the Article III of the SBAA *[or the Supplemental Provisions to the Project Document]*, the responsibility for the safety and security of each responsible party, subcontractor and sub-recipient and its personnel and property, and of UNDP's property in such responsible party's, subcontractor's and sub-recipient's custody, rests with such responsible party, subcontractor and sub-recipient. To this end, each responsible party, subcontractor and sub-recipient shall:
      i. put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
      ii. assume all risks and liabilities related to such responsible party's, subcontractor's and sub-recipient's security, and the full implementation of the security plan.

   b. UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of the responsible party's, subcontractor's and sub-recipient's obligations under this Project Document.

   c. In the performance of the activities under this Project, UNDP as the Implementing Partner shall ensure, with respect to the activities of any of its responsible parties, sub-recipients and other entities engaged under the Project, either as contractors or subcontractors, their personnel and any individuals performing services for them, that those entities have in place adequate and proper procedures, processes and policies to prevent and/or address SEA and SH.

   d. Each responsible party, subcontractor and sub-recipient will take appropriate steps to prevent misuse of funds, fraud or corruption, by its officials, consultants, subcontractors and sub-recipients in implementing the project or programme or using the UNDP funds. It will ensure that its financial management, anti-corruption and anti-fraud policies are in place and enforced for all funding received from or through UNDP.

e. The requirements of the following documents, then in force at the time of signature of the Project Document, apply to each responsible party, subcontractor and sub-recipient: (a) UNDP Policy on Fraud and other Corrupt Practices and (b) UNDP Office of Audit and Investigations Investigation Guidelines. Each responsible party, subcontractor and sub-recipient agrees to the requirements of the above documents, which are an integral part of this Project Document and are available online at www.undp.org.

f. In the event that an investigation is required, UNDP will conduct investigations relating to any aspect of UNDP programmes and projects. Each responsible party, subcontractor and sub-recipient will provide its full cooperation, including making available personnel, relevant documentation, and granting access to its (and its consultants', subcontractors' and sub-recipients') premises, for such purposes at reasonable times and on reasonable conditions as may be required for the purpose of an investigation. Should there be a limitation in meeting this obligation, UNDP shall consult with it to find a solution.

g. Each responsible party, subcontractor and sub-recipient will promptly inform UNDP as the Implementing Partner in case of any incidence of inappropriate use of funds, or credible allegation of fraud or corruption with due confidentiality.

   Where it becomes aware that a UNDP project or activity, in whole or in part, is the focus of investigation for alleged fraud/corruption, each responsible party, subcontractor and sub-recipient will inform the UNDP Resident Representative/Head of Office, who will promptly inform UNDP's Office of Audit and Investigations (OAI). It will provide regular updates to the head of UNDP in the country and OAI of the status of, and actions relating to, such investigation.

h. UNDP will be entitled to a refund from the responsible party, subcontractor or sub-recipient of any funds provided that have been used inappropriately, including through fraud or corruption, or otherwise paid other than in accordance with the terms and conditions of the Project Document. Such amount may be deducted by UNDP from any payment due to the responsible party, subcontractor or sub-recipient under this or any other agreement.

   Where such funds have not been refunded to UNDP, the responsible party, subcontractor or sub-recipient agrees that donors to UNDP (including the Government) whose funding is the source, in whole or in part, of the funds for the activities under this Project Document, may seek recourse to such responsible party, subcontractor or sub-recipient for the recovery of any funds determined by UNDP to have been used inappropriately, including through fraud or corruption, or otherwise paid other than in accordance with the terms and conditions of the Project Document.

i. Each contract issued by the responsible party, subcontractor or sub-recipient in connection with this Project Document shall include a provision representing that no fees, gratuities, rebates, gifts, commissions or other payments, other than those shown in the proposal, have been given, received, or promised in connection with the selection process or in contract execution, and that the recipient of funds from it shall cooperate with any and all investigations and post-payment audits.

j. Should UNDP refer to the relevant national authorities for appropriate legal action any alleged wrongdoing relating to the project or programme, the Government will ensure that the relevant national authorities shall actively investigate the same and take appropriate legal action against all individuals found to have participated in the wrongdoing, recover and return any recovered funds to UNDP.

k. Each responsible party, subcontractor and sub-recipient shall ensure that all of its obligations set forth under this section entitled "Risk Management" are passed on to its subcontractors and sub-recipients and that all the clauses under this section entitled "Risk Management Standard Clauses" are adequately reflected, *mutatis mutandis*, in all its sub-contracts or sub-agreements entered into further to this Project Document.

ANNEXES

Annex 1. Social and Environmental Screening Template

Project Information

Project Information	
1. Project Title	Innovation for Development
2. Project Number	
3. Location (Global/Region/Country)	UNDP - Ethiopia Country Office/Inclusive Growth and Sustainable Development Unit

Part A. Integrating Overarching Principles to Strengthen Social and Environmental Sustainability

QUESTION 1: How Does the Project Integrate the Overarching Principles in order to Strengthen Social and Environmental Sustainability?
Briefly describe in the space below how the Project mainstreams the human-rights based approach
The Project mainstreams human-rights based approach starting from the innovation ecosystem assessment study by supporting inclusive and broad-base innovation that targets women and youth and stimulates job creation. It ensures participation and inclusion of federal, regional level government bodies, civil society organizations, entrepreneurs, researchers and unemployed youth, among others by facilitating the creation of a more conducive environment for entrepreneurship, enhance institutional capacity and strengthen linkages among ecosystem stakeholders, strengthen entrepreneurial and innovation capacity, and facilitating access to finance to various groups that traditionally face challenges in accessing financial services. Accordingly, based on this assessment the Project is well founded in principles that are inclusive and generate impact on broad segments of the economy by fostering shared prosperity and nurturing job creation.
Briefly describe in the space below how the Project is likely to improve gender equality and women's empowerment
Female entrepreneurs in Ethiopia face particular challenges of skills acquisition and access to finance. Female-owned firms in Ethiopia underperform those owned by men in an array of critical dimensions including profitability, survival rate, average size, and growth trajectory. Estimates suggest that while female-owned SMEs account for only 44 percent of firms, they make up nearly 70 percent of failed businesses. This can be attributed to the fact that women entrepreneurs have less access to resources to grow and formalize their businesses; and less information regarding market needs and entrepreneurial possibilities. Female entrepreneurs are also more likely to face social biases against their decision to engage in SMEs, and lack inspirational role models. They also frequently exhibit lower levels of financial and digital literacy, compared to men. Accessing finance is also a major challenge for female entrepreneurs, as many of them are unable to satisfy the minimal collateral requirements of commercial banks, and are thus unable to graduate from group borrowing from MFIs. When they do access credit, women tend to receive smaller loans, which are often too small to meaningfully invest in their firms, thus widening the gender gap. This project will address both structural challenges that hinder the entrepreneurial advancement of women in Ethiopia.

1. The project will support a diagnostic of primary barriers faced by women entrepreneurs and identification of specific policy changes that need to be made (Activity 1.2). Particular attention will be paid to female entrepreneurs in rural areas, who are more disadvantaged than urban women in this respect. The findings will inform the development of a strategy document to improve the enabling ecosystem for female entrepreneurship.
2. The project will prioritize women entrepreneurs for all capacity building activities delivered to SMEs and start-ups, including customized and market-oriented entrepreneurship trainings, BDS, mentorship sessions, etc. (Activities 3.1, 3.2, 3.4).
3. The project will facilitate access to innovative financial mechanisms for female entrepreneurs (Activity 6.2).

The impact of these activities on female entrepreneurs will be closely and rigorously monitored by a variety of indicators in the project's Result Framework.

Briefly describe in the space below how the Project mainstreams environmental sustainability
The Project has no adverse impact on the environment as such, should the need arise in the due process of the implementation; appropriate intervention will be taken by the Project implementation team based on international best practices.

Part B. Identifying and Managing Social and Environmental Risks

QUESTION 2: What are the Potential Social and Environmental Risks? *Note: Describe briefly potential social and environmental risks identified in Attachment 1 – Risk Screening Checklist (based on any "Yes" responses). If no risks have been identified in Attachment 1 then note "No Risks Identified" and skip to Question 4 and Select "Low Risk". Questions 5 and 6 not required for Low Risk Projects.*	**QUESTION 3: What is the level of significance of the potential social and environmental risks?** *Note: Respond to Questions 4 and 5 below before proceeding to Question 6*			**QUESTION 6: What social and environmental assessment and management measures have been conducted and/or are required to address potential risks (for Risks with Moderate and High Significance)?**
Risk Description	***Impact and Probability (1-5)***	***Significance (Low, Moderate, High)***	***Comments***	***Description of assessment and management measures as reflected in the Project design. If ESIA or SESA is required note that the assessment should consider all potential impacts and risks.***
Women and young entrepreneurs may not come forward and actively take advantage of project services and offerings. It may thus be difficult to comply with the project commitments and	I = 3 P = 3	Moderate		The project will build on the existing institutional infrastructure of the Entrepreneurship Development Center (EDC), which has acquired significant experience in reaching out to and capacitating female and young entrepreneurs. The project will take advantage of this

indicators that require a certain percentage of female beneficiaries.				experience and expand EDC's outreach strategy to reach out to all relevant segments of beneficiary target groups.
Project activities will benefit established entrepreneurs, while leaving vulnerable segments of the population—women and the youth—behind	I = 3 P = 1	Low		Project interventions are specifically geared toward the engagement and empowerment of women and the youth in entrepreneurial activities and as part of the innovation ecosystem.

QUESTION 4: What is the overall Project risk categorization?		
Select one (see SESP for guidance)		**Comments**
Low Risk	☐	
Moderate Risk	X	**The social and environmental risk of the project is low, but the operational and political risk is considerable.**
High Risk	☐	

QUESTION 5: Based on the identified risks and risk categorization, what requirements of the SES are relevant?		
Check all that apply		**Comments**
Principle 1: Human Rights	X	
Principle 2: Gender Equality and Women's Empowerment	X	
1. Biodiversity Conservation and Natural Resource Management	☐	
2. Climate Change Mitigation and Adaptation	☐	
3. Community Health, Safety and Working Conditions	☐	
4. Cultural Heritage	☐	
5. Displacement and Resettlement	☐	
6. Indigenous Peoples	☐	
7. Pollution Prevention and Resource Efficiency	☐	

Final Sign Off

Signature	*Date*	*Description*
QA Assessor		UNDP staff member responsible for the Project, typically a UNDP Programme Officer. Final signature confirms they have "checked" to ensure that the SESP is adequately conducted.
QA Approver		UNDP senior manager, typically the UNDP Deputy Country Director (DCD), Country Director (CD), Deputy Resident Representative (DRR), or Resident Representative (RR). The QA Approver cannot also be the QA Assessor. Final signature confirms they have "cleared" the SESP prior to submittal to the PAC.
PAC Chair		UNDP chair of the PAC. In some cases, PAC Chair may also be the QA Approver. Final signature confirms that the SESP was considered as part of the project appraisal and considered in recommendations of the PAC.

SESP Attachment 1. Social and Environmental Risk Screening Checklist

Checklist Potential Social and Environmental Risks		
Principles 1: Human Rights		**Answer (Yes/No)**
1.	Could the Project lead to adverse impacts on enjoyment of the human rights (civil, political, economic, social or cultural) of the affected population and particularly of marginalized groups?	No
2.	Is there a likelihood that the Project would have inequitable or discriminatory adverse impacts on affected populations, particularly people living in poverty or marginalized or excluded individuals or groups? [9]	No
3.	Could the Project potentially restrict availability, quality of and access to resources or basic services, in particular to marginalized individuals or groups?	No
4.	Is there a likelihood that the Project would exclude any potentially affected stakeholders, in particular marginalized groups, from fully participating in decisions that may affect them?	No
5.	Is there a risk that duty-bearers do not have the capacity to meet their obligations in the Project?	Yes
6.	Is there a risk that rights-holders do not have the capacity to claim their rights?	No
7.	Have local communities or individuals, given the opportunity, raised human rights concerns regarding the Project during the stakeholder engagement process?	No
8.	Is there a risk that the Project would exacerbate conflicts among and/or the risk of violence to project-affected communities and individuals?	No
Principle 2: Gender Equality and Women's Empowerment		
1.	Is there a likelihood that the proposed Project would have adverse impacts on gender equality and/or the situation of women and girls?	No
2.	Would the Project potentially reproduce discriminations against women based on gender, especially regarding participation in design and implementation or access to opportunities and benefits?	No
3.	Have women's groups/leaders raised gender equality concerns regarding the Project during the stakeholder engagement process and has this been included in the overall Project proposal and in the risk assessment?	No
4.	Would the Project potentially limit women's ability to use, develop and protect natural resources, taking into account different roles and positions of women and men in accessing environmental goods and services? *For example, activities that could lead to natural resources degradation or depletion in communities who depend on these resources for their livelihoods and well being*	No
Principle 3: Environmental Sustainability: Screening questions regarding environmental risks are encompassed by the specific Standard-related questions below		
Standard 1: Biodiversity Conservation and Sustainable Natural Resource Management		
1.1	Would the Project potentially cause adverse impacts to habitats (e.g. modified, natural, and critical habitats) and/or ecosystems and ecosystem services? *For example, through habitat loss, conversion or degradation, fragmentation, hydrological changes*	No
1.2	Are any Project activities proposed within or adjacent to critical habitats and/or environmentally sensitive areas, including legally protected areas (e.g. nature reserve, national park), areas proposed for protection, or recognized as such by authoritative sources and/or indigenous peoples or local communities?	No
1.3	Does the Project involve changes to the use of lands and resources that may have adverse impacts on habitats, ecosystems, and/or livelihoods? (Note: if restrictions and/or limitations of access to lands would apply, refer to Standard 5)	No

[9] Prohibited grounds of discrimination include race, ethnicity, gender, age, language, disability, sexual orientation, religion, political or other opinion, national or social or geographical origin, property, birth or other status including as an indigenous person or as a member of a minority. References to "women and men" or similar is understood to include women and men, boys and girls, and other groups discriminated against based on their gender identities, such as transgender people and transsexuals.

1.4	Would Project activities pose risks to endangered species?	No
1.5	Would the Project pose a risk of introducing invasive alien species?	No
1.6	Does the Project involve harvesting of natural forests, plantation development, or reforestation?	No
1.7	Does the Project involve the production and/or harvesting of fish populations or other aquatic species?	No
1.8	Does the Project involve significant extraction, diversion or containment of surface or ground water? *For example, construction of dams, reservoirs, river basin developments, groundwater extraction*	No
1.9	Does the Project involve utilization of genetic resources? (e.g. collection and/or harvesting, commercial development)	No
1.10	Would the Project generate potential adverse transboundary or global environmental concerns?	No
1.11	Would the Project result in secondary or consequential development activities which could lead to adverse social and environmental effects, or would it generate cumulative impacts with other known existing or planned activities in the area? *For example, a new road through forested lands will generate direct environmental and social impacts (e.g. felling of trees, earthworks, potential relocation of inhabitants). The new road may also facilitate encroachment on lands by illegal settlers or generate unplanned commercial development along the route, potentially in sensitive areas. These are indirect, secondary, or induced impacts that need to be considered. Also, if similar developments in the same forested area are planned, then cumulative impacts of multiple activities (even if not part of the same Project) need to be considered.*	No
Standard 2: Climate Change Mitigation and Adaptation		
2.1	Will the proposed Project result in significant[10] greenhouse gas emissions or may exacerbate climate change?	No
2.2	Would the potential outcomes of the Project be sensitive or vulnerable to potential impacts of climate change?	No
2.3	Is the proposed Project likely to directly or indirectly increase social and environmental vulnerability to climate change now or in the future (also known as maladaptive practices)? *For example, changes to land use planning may encourage further development of floodplains, potentially increasing the population's vulnerability to climate change, specifically flooding*	No
Standard 3: Community Health, Safety and Working Conditions		
3.1	Would elements of Project construction, operation, or decommissioning pose potential safety risks to local communities?	No
3.2	Would the Project pose potential risks to community health and safety due to the transport, storage, and use and/or disposal of hazardous or dangerous materials (e.g. explosives, fuel and other chemicals during construction and operation)?	No
3.3	Does the Project involve large-scale infrastructure development (e.g. dams, roads, buildings)?	No
3.4	Would failure of structural elements of the Project pose risks to communities? (e.g. collapse of buildings or infrastructure)	No
3.5	Would the proposed Project be susceptible to or lead to increased vulnerability to earthquakes, subsidence, landslides, erosion, flooding or extreme climatic conditions?	No
3.6	Would the Project result in potential increased health risks (e.g. from water-borne or other vector-borne diseases or communicable infections such as HIV/AIDS)?	No
3.7	Does the Project pose potential risks and vulnerabilities related to occupational health and safety due to physical, chemical, biological, and radiological hazards during Project construction, operation, or decommissioning?	No
3.8	Does the Project involve support for employment or livelihoods that may fail to comply with national and international labor standards (i.e. principles and standards of ILO fundamental conventions)?	No
3.9	Does the Project engage security personnel that may pose a potential risk to health and safety of communities and/or individuals (e.g. due to a lack of adequate training or accountability)?	No

[10] In regard to CO_2, 'significant emissions' corresponds generally to more than 25,000 tons per year (from both direct and indirect sources). [The Guidance Note on Climate Change Mitigation and Adaptation provides additional information on GHG emissions.]

Standard 4: Cultural Heritage		
4.1	Will the proposed Project result in interventions that would potentially adversely impact sites, structures, or objects with historical, cultural, artistic, traditional or religious values or intangible forms of culture (e.g. knowledge, innovations, practices)? (Note: Projects intended to protect and conserve Cultural Heritage may also have inadvertent adverse impacts)	No
4.2	Does the Project propose utilizing tangible and/or intangible forms of cultural heritage for commercial or other purposes?	No
Standard 5: Displacement and Resettlement		
5.1	Would the Project potentially involve temporary or permanent and full or partial physical displacement?	No
5.2	Would the Project possibly result in economic displacement (e.g. loss of assets or access to resources due to land acquisition or access restrictions – even in the absence of physical relocation)?	No
5.3	Is there a risk that the Project would lead to forced evictions?[11]	No
5.4	Would the proposed Project possibly affect land tenure arrangements and/or community-based property rights/customary rights to land, territories and/or resources?	No
Standard 6: Indigenous Peoples		
6.1	Are indigenous peoples present in the Project area (including Project area of influence)?	No
6.2	Is it likely that the Project or portions of the Project will be located on lands and territories claimed by indigenous peoples?	No
6.3	Would the proposed Project potentially affect the human rights, lands, natural resources, territories, and traditional livelihoods of indigenous peoples (regardless of whether indigenous peoples possess the legal titles to such areas, whether the Project is located within or outside of the lands and territories inhabited by the affected peoples, or whether the indigenous peoples are recognized as indigenous peoples by the country in question)? *If the answer to the screening question 6.3 is "yes" the potential risk impacts are considered potentially severe and/or critical and the Project would be categorized as either Moderate or High Risk.*	No
6.4	Has there been an absence of culturally appropriate consultations carried out with the objective of achieving FPIC on matters that may affect the rights and interests, lands, resources, territories and traditional livelihoods of the indigenous peoples concerned?	No
6.5	Does the proposed Project involve the utilization and/or commercial development of natural resources on lands and territories claimed by indigenous peoples?	No
6.6	Is there a potential for forced eviction or the whole or partial physical or economic displacement of indigenous peoples, including through access restrictions to lands, territories, and resources?	No
6.7	Would the Project adversely affect the development priorities of indigenous peoples as defined by them?	No
6.8	Would the Project potentially affect the physical and cultural survival of indigenous peoples?	No
6.9	Would the Project potentially affect the Cultural Heritage of indigenous peoples, including through the commercialization or use of their traditional knowledge and practices?	No
Standard 7: Pollution Prevention and Resource Efficiency		
7.1	Would the Project potentially result in the release of pollutants to the environment due to routine or non-routine circumstances with the potential for adverse local, regional, and/or transboundary impacts?	No
7.2	Would the proposed Project potentially result in the generation of waste (both hazardous and non-hazardous)?	No

[11] Forced evictions include acts and/or omissions involving the coerced or involuntary displacement of individuals, groups, or communities from homes and/or lands and common property resources that were occupied or depended upon, thus eliminating the ability of an individual, group, or community to reside or work in a particular dwelling, residence, or location without the provision of, and access to, appropriate forms of legal or other protections.

7.3	Will the proposed Project potentially involve the manufacture, trade, release, and/or use of hazardous chemicals and/or materials? Does the Project propose use of chemicals or materials subject to international bans or phase-outs? *For example, DDT, PCBs and other chemicals listed in international conventions such as the Stockholm Conventions on Persistent Organic Pollutants or the Montreal Protocol*	No
7.4	Will the proposed Project involve the application of pesticides that may have a negative effect on the environment or human health?	No
7.5	Does the Project include activities that require significant consumption of raw materials, energy, and/or water?	No

ANNEX 2: RISK REGISTER

A. Risk Register					
Project Title: Innovation for Development			Project Number:	Date:	
#	**Description**	**Risk Category**	**Impact (I) & Likelihood (P) = Risk Level (Based on UNDP ERM - Risk Matrix)**	**Risk Treatment / Management Measures**	**Risk Owner**
1	Women and young entrepreneurs may not come forward and actively take advantage of project services and offerings. It may thus be difficult to fulfill the indicators that require a certain percentage of female beneficiaries.	Social and environmental	I=3 P=3 Risk level=moderate	The project will build on the existing institutional infrastructure of the Entrepreneurship Development Center (EDC), which has acquired significant experience in reaching out to and capacitating female and young entrepreneurs. The project will take advantage of this experience and expand EDC's outreach strategy to reach out to all relevant segments of beneficiary target groups.	UNDP
2	Project activities will benefit established entrepreneurs, while leaving vulnerable segments of the population—women and the youth—behind	Social and environmental	I=3 P=1 Risk level=low	Project interventions are specifically geared toward the engagement and empowerment of women and the youth in entrepreneurial activities and as part of the innovation ecosystem.	UNDP
3	The Ministry of Innovation and Technology is the main implementing partner of UNDP, but as it has only recently been established, its institutional capacity is still low. It would be particularly challenging in this regard to assign MInT a more general inter-ministerial coordination role.	Operational	I=5 P=3 **Risk level=high**	The project is designed in a conservative manner to ensure that the project activities are well planned and phased in after ensuring the capacity of the implementing partners is in place. Training and capacity building will be provided to high level officials and technical staffs to facilitate project implementation; The Project Coordinator will closely work with the Ministry to follow-up and report the progress. The project also includes a robust monitoring and evaluation component to ensure realistic and sustainable outcome.	Ministry of Innovation and Technology

4	The project requires multi-sectoral coordination and collaboration among federal and regional government, private sector, and academia, and international development stakeholders. This raises a considerable risk of insufficient coordination and commitment, especially given the current weakness of the linkages among these stakeholders.	Operational	I=4 P=4 **Risk level=high**	The project preparation process has been participatory and conducted in close collaboration with multiple stakeholders to seek ideas and lessons learned. The preparation of the components has actively sought input from these stakeholders through technical workshops and interactions for exchange of ideas to fine tune the concepts and design elements and critically to seek the buy-in of the stakeholders, especially the implementing agencies.	UNDP
5	Multiple international development partners and national stakeholders are engaged in related projects and initiatives, and there may be a risk of duplications, lack of coordination and waste of resources.	Operational	I=3 P=4 **Risk level=moderate**	The Project Coordinator will take advantage of the institutional coordination and collaboration platforms that will be established as part of this project in order to closely engage with other stakeholders that work in the field and ensure the complementarity of ongoing initiatives.	UNDP
6	Existence of multiple decision makers at the national level Hinders effective and efficient collaboration and engagement	Operational	I=4 P=4 **Risk level=high**	The project will support the establishment of institutional coordination platforms that will be supported by development partners and closely work with different stakeholders to improve inter-governmental coordination in terms of both policy and implementation.	Ministry of Innovation and Technology
7	Policy mechanisms that will be developed as part of the project will not be translated into actions due to lack of capacity and commitment of national partners (at the federal and regional levels).	Operational	I=4 P=3 **Risk level=moderate**	All policy mechanisms that will be developed as part of the project will be accompanied by rigorous capacity building programs and trainings that will prepare relevant stakeholders to implement the mechanisms and/or take full advantage of their availability. The project's Results Framework includes a range of indicators that will monitor the implementation status and effectiveness of the policy mechanisms and will enable revisions as necessary.	UNDP
8	Some of the planned project activities will be jointly implemented with KOICA, and potentially other development partners. Such collaboration may encounter unforeseen difficulties related to distinct organizational agendas, objectives, timelines, budgetary restrictions, etc.	Operational	I=4 P=3 **Risk level=moderate**	The Project Coordinator will ensure that the planned collaboration with KOICA and any other development partners will be based on guidelines and principles that are put forward in official MOU and comply with the operational requirements and needs of both organizations.	UNDP

9	Insufficient national ownership of project objectives, commitments, and activities may hinder the long term sustainability and effectiveness of the project. The project intends to support a range of policy mechanisms and institutional initiatives that necessitate national ownership in order to ensure sustainability.	Strategic	I=4 P=4 **Risk level=high**	All project activities will be closely coordinated with government agencies and government champions that could sustainably support the innovation agenda will be identified and supported. Study tours and other capacity building activities will be used to strengthen government ownership and commitment.	UNDP
10	Government commitment to the innovation agenda may not be sustainable for the whole project duration and depend on political fluctuations	Political	I=4 P=2 **Risk level=moderate**	The project builds on the existing structures and has aligned its program activities to the national MSE strategy to ensure harmonization and sustainability. All project activities will be closely coordinated with government agencies and government champions that could sustainably support the innovation agenda will be identified and supported. Study tours and other capacity building activities will be used to strengthen government commitments.	UNDP
11	Political changes and turnovers in government agencies (MInT, MoSHE, JCC) that may delay the implementation of project activities	Political	I=4 P=4 **Risk level=high**	The project will identify a range of government champions at the national and regional level and build their capacity. It will also invest in the creation of institutional coordination and collaboration platforms that would be sustainable even if individual government officials leave or change their positions.	UNDP
12	Political instability may lead to lack of government commitment to planned project activities, frequent turnovers among high level officials and implementing partners, and delays.	Political	I=4 P=4 **Risk level=high**	The project will identify a range of government champions at the national and regional level and build their capacity. It will also invest in the creation of institutional coordination and collaboration platforms that would be sustainable even if individual government officials leave or change their positions.	UNDP/ Government
13	The project implementation schedule might be delayed due to delays in budget availability and fundraising.	Organizational	P =1 I= 4 **Risk Level= Low**	Efforts are being made to mobilize and secure fund for new Project intervention activities.	UNDP

14	The COVID-19 pandemic spread and restrictions on movements etc. in the country, the project implementation might slow down or delay.	Environmental	I=5 P=4 **Risk level=high**	Appropriate planning will be designed to mitigate the risks.	UNDP