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The World Bank

Report No: ICR00002789

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-40270/H1410)

ON
LOAN No. IDA 40270 and GRANT No. H1410

IN THE AMOUNT OF SDR 16.1 MILLION
(US$ 24 MILLION EQUIVALENT)
TO THE
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
FOR
PRIVATE SECTOR DEVELOPMENT CAPACITY BUILDING PROJECT

JUNE 30, 2013

Finance and Private Sector Development
East and Southern Africa
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2012)

Currency Unit = Ethiopian Birr (ETB)
1.00 US$ = 18.28 ETB
1.54 US$= 1 SDR

GOVERNMENT FISCAL YEAR
JULY 8-JULY 7

ABBREVIATIONS AND ACRONYMS

AAU	Addis Ababa University
AfDB	African Development Bank
APL	Adaptable Program Credit
BMU	Business Management Unit
BIZCAP	Matching Grants Scheme comprising support to firms and private sector associations
BIZPLAN	Business Plan Competition
CAS	Country Assistance Strategy
CPPR	Country Portfolio Performance Review
DFA	Development Financing Agreement
DFID	UK Department for International Development
DTIS	Diagnostic Trade Integration Study
ECF	Ethiopia Competitiveness Facility
EPA	Economic Partnership Agreement
ETB	Ethiopian Birr
EU	European Union
FBE	Faculty of Business and Economics
FIRMCAP	Firm capacity Building through Matching Grants Scheme
FM	Financial Management
GBP	Great Britain Pound
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
IDA	International Development Association
IDS	Industrial Development Strategy
IRR	Internal Rate of Return
MFI	Micro Finance Institution
M & E	Monitoring and Evaluation
MGS	Matching Grants Scheme
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MoI	Ministry of Industry

NPV	Net Present Value
PAD	Project Appraisal Document
PCU	Project Coordination Unit
PDO	Project Development Objective
PPESA	Privatization and Public Enterprises Supervising Agency
PRSC	Poverty Reduction Support Credits
PSD	Private Sector Development
PSD CB	Private Sector Development Capacity Building Project
SCHOOLCAP	School Capacity Building sub component of the project
SDPRP	Sustainable Development and Poverty Reduction Program
SOE	State Owned Enterprises
UNDP	United Nations Development Program
USAID	United States Agency for International development
US$	United States Dollar
VRP	Voluntary Retrenchment Program
WTO	World Trade Organization

Vice President:	Makhtar Diop
Country Director:	Guang Zhe Chen
Sector Manager:	Irina Astrakhan
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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
Private Sector Development Capacity Building Project

CONTENTS

A. Basic Information

Country:	Ethiopia	Project Name:	Ethiopia - Private Sector Development Capacity Building Project
Project ID:	P050272	L/C/TF Number(s):	IDA-40270,IDA-H1410
ICR Date:	06/13/2013	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
Original Total Commitment:	XDR 16.10M	Disbursed Amount:	XDR 10.93M
Revised Amount:	XDR 11.64M		

Environmental Category: B

Implementing Agencies:
Ministry of Industry

Cofinanciers and Other External Partners:

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	09/16/2004	Effectiveness:	07/15/2005	07/15/2005
Appraisal:	11/01/2004	Restructuring(s):		04/01/2008 07/03/2012
Approval:	12/21/2004	Mid-term Review:	01/11/2010	01/11/2010
		Closing:	06/30/2011	12/31/2012

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes:	Satisfactory
Risk to Development Outcome:	Low or Negligible
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory

Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes

	Original	**Actual**
Sector Code (as percent of total Bank financing)		
Central government administration	32	8
General industry and trade sector	60	83
Tertiary education	8	9
Theme Code (as percent of total Bank financing)		
Export development and competitiveness	29	35
Micro, Small and Medium Enterprise support	14	6
Other Private Sector Development	14	14
Regulation and competition policy	14	5
State-owned enterprise restructuring and privatization	29	40

E. Bank Staff

Positions	**At ICR**	**At Approval**
Vice President:	Makhtar Diop	Gobind T. Nankani
Country Director:	Guang Zhe Chen	Ishac Diwan
Sector Manager:	Irina Astrakhan	Demba Ba
Project Team Leader:	Asya Akhlaque	Agata E. Pawlowska
ICR Team Leader:	Senidu Fanuel	
ICR Primary Author:	Senidu Fanuel	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document**)**
To facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and competitiveness of the said sector

Revised Project Development Objectives (as approved by original approving authority)
Facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and export competitiveness

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of private sector jobs created in participating firms and targeted sectors			
Value quantitative or Qualitative)	1,917	4,500	10percent, 2,109	5,719
Date achieved	12/31/2004	12/31/2009	12/31/2012	12/31/2012
Comments (incl. percent achievement)	This indicator referred to the MGS and was measured as an average across all benefiting firms			
Indicator 2 :	Value of exports in participating firms and targeted sectors, at least 25percent increase in exports and/or at least 10 firms starting to export as a result of the support			
Value quantitative or Qualitative)	0	25percent	25percent and/ or 10 firms	29percent increase in exports and 20 firms have started to export
Date achieved	04/01/2008	07/31/2012	07/03/2012	12/31/2012
Comments (incl. percent achievement)	Target was overachieved. This indicator was introduced during the restructuring in April 2008 and target was revised again in the July 2012 restructuring			
Indicator 3 :	Proportion of total value of public enterprise assets transferred to private sector management and ownership			
Value quantitative or Qualitative)	0	55percent		77percent
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)	Target was overachieved. This indicator was changed to PDO outcome indicator (from intermediate result indicator) during the final restructuring to capture the results under the privatization component			
Indicator 4 :	Direct project beneficiaries (number), of which female (percent)			
Value quantitative or Qualitative)	0	5000 direct beneficiaries, 50percent women		Direct project beneficiaries - 5,719 (new jobs

				created), 60.4percent of which were women
Date achieved	07/03/2012	12/31/2012		12/31/2012
Comments (incl. percent achievement)	Target was overachieved. This core indicator was introduced during restructuring in July 2012			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of public enterprises sold to the private sector			
Value (quantitative or Qualitative)	0	10 per annum in 2004/05 to 2008/09		44 Public enterprises were transferred to private ownership
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)	29 SOEs were privatized by end of 2009 and one of the justifications for the project time extension was to give more time to achieve the set target			
Indicator 2 :	Revised competition policy enacted with framework for fair trade practices and anti - trust separate from anti - dumping and consumer protection framework			
Value (quantitative or Qualitative)	No	Yes		Target achieved
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)				
Indicator 3 :	Establishment of independent competition authority and secretariat with wider representation by public and private sector specialists and other stakeholders			
Value (quantitative or Qualitative)	No	Yes		Target achieved
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)	An independent competition authority was established replacing the former Trade Practice & Investigation Commission. But it was not fully staffed by project end			
Indicator 4 :	Studies on Ethiopia WTO accessions prepared, disseminated to, and discussed by WTO task force			
Value (quantitative or Qualitative)	No	Yes		Target achieved
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments	Three studies on WTO accession impact assessment were completed,			

(incl. percent achievement)	disseminated and discussed by stakeholders and WTO task force and the National Steering Committee			
Indicator 5 :	Number of matching grant support given to private firms for export expansion			
Value (quantitative or Qualitative)	0	150		165
Date achieved	07/03/2012	12/31/2012		12/31/2012
Comments (incl. percent achievement)	Target was overachieved			
Indicator 6 :	Number of startups established through business plan competition each year			
Value (quantitative or Qualitative)	0	20 each in round 1 and 2		52
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)	Target was achieved. 20 new businesses were established in round 1 & 2 and a total of 52 at project end without including the last round of 10 winners as the competition was done towards the end of the project			
Indicator 7 :	Proportion of startups established through business plan competition that survive after one year in operation			
Value (quantitative or Qualitative)	0	70percent		77percent
Date achieved	04/01/2008	07/31/2012		12/31/2012
Comments (incl. percent achievement)	Target was over achieved. 40 of the businesses, out of the 52 startups survived after one year of operation			
Indicator 8 :	University (FBE) curriculum revised and adopted			
Value (quantitative or Qualitative)	no	Yes		Yes
Date achieved	11/23/2004	12/31/2009		12/31/2012
Comments (incl. percent achievement)	Target was achieved. Revision of curricula was done as planned and additional new courses were introduced			
Indicator 9 :	Number of graduates in regulatory economics and international trade programs in year 3 and 4			
Value (quantitative or Qualitative)	0	20 each year in year 3 and 4 (40 total)		41
Date achieved	11/23/2004	12/31/2009		12/31/2009
Comments (incl. percent achievement)	Target was achieved. 20 students in Yr 3 & 21 students in Yr.4 had graduated. The allocated budget for this activity was fully utilized by then and the support was continued through financing from EU			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (US$ millions)
1	06/23/2005	Satisfactory	Satisfactory	0.00
2	12/28/2005	Satisfactory	Satisfactory	1.75
3	01/28/2006	Moderately Unsatisfactory	Moderately Unsatisfactory	1.75
4	06/29/2006	Moderately Satisfactory	Moderately Satisfactory	1.75
5	01/22/2007	Moderately Unsatisfactory	Moderately Unsatisfactory	2.12
6	06/28/2007	Moderately Satisfactory	Moderately Satisfactory	2.57
7	12/19/2007	Moderately Satisfactory	Moderately Satisfactory	3.62
8	06/25/2008	Moderately Satisfactory	Moderately Satisfactory	4.39
9	12/16/2008	Moderately Satisfactory	Moderately Satisfactory	5.42
10	06/28/2009	Moderately Satisfactory	Satisfactory	8.84
11	12/22/2009	Moderately Satisfactory	Satisfactory	10.22
12	06/26/2010	Satisfactory	Satisfactory	11.29
13	03/27/2011	Satisfactory	Satisfactory	12.86
14	12/04/2011	Satisfactory	Satisfactory	15.03
15	07/09/2012	Satisfactory	Satisfactory	15.76
16	10/31/2012	Satisfactory	Satisfactory	16.64
17	12/26/2012	Satisfactory	Moderately Satisfactory	16.83

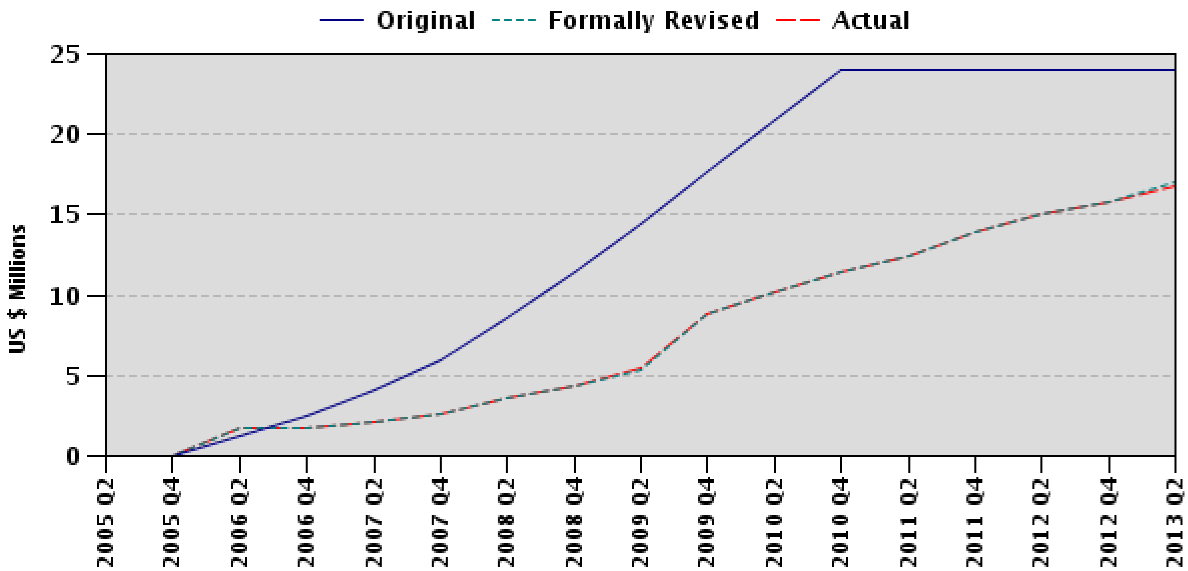
H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in US$ millions	Reason for Restructuring & Key Changes Made
		DO	IP		
04/01/2008	Y	MS	MS	4.39	Restructuring done to extend the closing date and made a slight change in the language in the PDO from competitiveness to export competitiveness
07/03/2012	N	S	S	15.76	To streamline the outcome and result indicators and extension of closing date to fully utilize resources

If PDO and/or Key Outcome Targets were formally revised (approved by the original approving body) enter ratings below:

	Outcome Ratings
Against Original PDO/Targets	Satisfactory
Against Formally Revised PDO/Targets	Satisfactory
Overall (weighted) rating	Satisfactory

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **Country and Sector background**: In 1992, the Government of Ethiopia (GOE) embarked on a comprehensive reform program to bring an end to economic stagnation inherited from the Derg government. The momentum of the reforms, however, was interrupted by an outbreak of the conflict with Eritrea in May 1998, which lasted until end-2000. Subsequent to the war, the Government resumed its economic reform program and reconfirmed its commitment to poverty reduction through rapid and equitable economic growth within a framework of macroeconomic stability. The principles of the program were detailed in the Government's Sustainable Development and Poverty Reduction Program (SDPRP, July 2002). Further, reforms to stimulate private sector development (PSD) in facilitating growth and employment generation were elaborated in the Industrial Development Strategy (IDS, 2002). The objectives of the IDS were to increase the contribution of private sector to the economy as measured by private investment in GDP and to increase factory productivity. This was to be achieved through a comprehensive package of reforms to be implemented over the medium to long term.[1]

2. At the time of the project appraisal, even though some positive actions had been taken to improve the investment climate in the country, many of the constraints that negatively affect productivity of the private sector and its ability to compete domestically as well as regionally remained unaddressed. Some were structural (such as high transport costs and low domestic demand) while others (such as reforms of the tax regime, improving access, reliability and prices of utilities and improving access to credit) required more time to take effect. In addition, there were constraints that related to policies and institutions that impeded private sector growth and diversification. Specifically, these included:

i. Dominant role of public sector, lack of effective competition and level playing field that limited the space for private sector growth, as indicated by the small number of firms in the formal sector and the small size of firms, compared to the country's size and international benchmark.
ii. Weak integration of the Ethiopian economy into the regional and international economy, as reflected in the low level of exports. Almost all Ethiopian firms were producing for the domestic market with few participating in export activities or managing to attract foreign capital.
iii. Low labor productivity and thus a limited capacity of the private sector to compete, and weak institutional support for the private sector. While the cost of labor in Ethiopia, compared to some leading countries exporting labor-intensive manufactures', was low, a typical worker in Ethiopia was 80 percent less

[1] The Planned reforms ranged from improving investment climate (including privatization), trade policy, reducing regulatory burden (including tax policy and administration), and improving access to infrastructure (telecommunication, power and transport), land and finance.

productive than the average worker in Bangladesh and less than half as productive as the average Chinese worker.[2]

3. The PSD CB Project was designed to complement the policy dialogue under the PRSC. The PSD CB was to support the policy reforms under the PRSC through provision of technical and financial assistance in specific areas. It aimed to reduce the role of the Government in commercial activities through privatization; improve business climate and support stronger integration of the Ethiopian economy into the regional and international markets; and increase labor productivity of the private sector.

4. **Rationale for Bank Assistance**: The Bank's program under the CAS for FY 2003 to 2005 supported the Government’s strategy in the SDPRP through a mix of lending and analytical instruments in support of the evolving institutional structures of Ethiopia. A series of annual budget support operations, Poverty Reduction Support Credits (PRSCs), were prepared to support policy reforms measured by Government actions specified under this framework. The second operation of the series, PRSC-II, discussed by the Board on November 30, 2004, included PSD policy content in the areas of privatization, competition policy and WTO accession. While the PRSC represented a vehicle for policy dialogue and facilitated addressing policy and regulatory issues, the PSD CB project was intended to provide complementary financial support and technical assistance necessary to enable the Government to implement key PSD policy reforms.

5. The PSD CB Project was also designed to complement ongoing efforts led by development partners supporting PSD reforms. In particular, European Union (EU), the African Development Bank (AfDB), the UK Department for International Development (DFID), the US Agency for International Development (USAID) and the United Nations Development Program (UNDP) were actively supporting PSD, and in some cases through an integrated program with similar themes. [3]During the project preparation, the Bank team consulted and coordinated with the donors bilaterally as well as with two donor groups established for the DTIS follow-up (PSD Working Group) and for the PRSC-I1 preparation (PSD Technical Team). As a result, the PSD CB Project was designed to complement activities funded by other donors. In the area of capacity building, the PSD CB project complemented the EU-funded Micro and Small Enterprise Development Program which focused on building capacity of the micro firms and micro-finance institutions (MFIs). In the area of WTO accession, the PSD CB project supplemented the support offered by the EU which focused on Ethiopia’s negotiations with the EU through an Economic Partnership Agreement (EPA) and implementation of the Common Market for Eastern and Southern Africa (COMESA) regional integration agenda. The project also complemented the USAID proposed support which focused on the legal and administrative dimensions of WTO accession. In the area of privatization, Bank support complemented programs of AfDB and DFID.

[2] Project Appraisal Document, Page 4.
[3] Areas of assistance included business services, trade facilitation, capacity building and business environment.

1.2 Original Project Development Objectives (PDO) and Key Indicators (*as approved*)

6. The original objective of the project was to facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and competitiveness of the said sector (Development Financing Agreement (DFA) dated March 10, 2005).

7. This goal was to be achieved by helping accelerate the process of divestiture of public enterprises and facilitating increased private participation; improving the business environment and increasing competition and the contestability of markets; strengthening the linkages and integration of the Ethiopian economy into the global markets; strengthening support for technical and business management skills and thus improving the productivity at the firm level. The project was intended to integrate complementary and mutually reinforcing activities to support enterprise needs, including a matching grant fund, tools for business schools to better train managers and professionals to support competition and economic integration, and a business plan competition to catalyze innovation, and entrepreneurship. The project, particularly components relating to privatization, competition and WTO accession were planned to support implementation of policy measures agreed in the framework of the PRSC, and thus the poverty reduction strategy of the Government.

8. The key outcome indicators selected to monitor the achievement of the PDO were:

i. Increased Private Investment in GDP ratio from 10.5 percent in 2003/04 to 15 percent in 2009 (including privatized firms)
ii. 4,500 new jobs created in the private sector by project end; and
iii. Value added per worker increased by 20 percent in participating firms by project end.

9. The Project Development Objective and outcome indicators were similarly stated in the Project Appraisal Document (PAD).

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

10. The PDO was revised once in a restructuring done on April 1, 2008 and the original outcome indicators have been modified twice in the restructurings of the project dated April 1, 2008 and July 3, 2012. Table 1 below shows the PDO and the key indicators as stated in the original agreement and in the subsequent two restructurings.

Table 1

Financing Agreement	**PDO Statement**	**Key Indicators**
Original DFA dated 10 March 2005	Facilitate increased participation of the private sector in the borrower's economy by creating conditions for improving productivity and competitiveness of the said sector	- Increased Private Investment to GDP ratio from 10.5 percent in 2003/04 to 15percent in 2009 (including privatized firms) - 4500 new jobs created in the private sector by project end - Value added per worker increased by 20percent in participating firms by project end
First amendment to DFA: Original amendment and restatement agreement dated 01 April 2008	Facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity & export competitiveness	- Increase in exports by the participating firms by the end of the project - Increase in jobs created in the beneficiary firms by project end - Value added per worker increase by 20percent in participating firms by project end
Second amendment to DFA (level II restructuring): Extension of closing date and reallocation of proceed dated 03 July 2012	To facilitate increased participation of the private sector in the economy by creating conditions for improving productivity and competitiveness	- Number of Private Sector jobs created in participating firms and targeted sectors (target: at least 10percent) - Proportion of total value of Public enterprise assets transferred to private sector management and ownership (target: 27percent by Yr. 3 & 55percent by Yr.5) - Value of exports in participating firms and targeted sectors, at least 25percent increase in exports and/or at least 10 firms starting to export as a result of the support - Direct project beneficiaries (number), of which female (percent) (Target: 5000, 50percent)

11. Midway through the implementation of the project, the Government[4] refocused its industrial strategy to support selected sectors to increase exports and lead the industrialization of the economy. Accordingly, the language in the original PDO was slightly restated during the restructuring done on April 1, 2008 to emphasize on export competitiveness. The indicators were also revised accordingly to focus the results on exports.

12. The second restructuring of the project (dated 3 July 2012) was a level II restructuring which did not change the PDO. However, the key indicators were changed to align the PDO indicators and the intermediate result indicators. One outcome indicator was dropped, which was found to be difficult to track, and two outcome indicators were added to introduce indicators that track the progress on the support for the privatization program and one of the Bank's core indicators (Please refer to Table 1 for details).

1.4 Main Beneficiaries

13. The PAD did not identify specific target beneficiaries of the project. The PDO statement indicates that the private sector would be the main beneficiary of the project. However, this is a broad and generic identification of the beneficiary group.

14. In the interventions planned under each component and the results framework, the project targets individual firms (private sector), individual entrepreneurs, graduate school students at the Addis Ababa University and women as beneficiaries.

1.5 Original Components (*as approved*)

15. At approval, the PSD CB project had three components and five sub components as follows.

16. **Component one - Accelerating the implementation of privatization Program (IDA US$ 9.87 million.)**: This component was designed to assist the Government in accelerating the implementation of its privatization program of commercial public enterprises. To achieve this objective, the Government planned to make use of a range of divestiture modalities including direct sale, concessions, leasing, joint ventures, management contracts, etc. Further, in order to address concerns of potential investors related to labor issues, the divestiture process would allow the successful bidder flexibility to restructure the labor force of the enterprise. This component was designed to provide financial and technical assistance in the following areas:

(1) Institutional capacity building of the Privatization and Public Enterprise Supervisory Authority (PPESA) – which would cover training of the PPESA staff and board members on topics such as negotiating skills and contract management.

[4] Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/06-2009/2010, Vol. 1, September 2006 - The Government prioritized five sectors to provide support to increase export and competitiveness. These sectors were textile and garment, Leather and leather products, Sugar, Agro business (Flower, high value fruits and vegetables) and cement industries.

An enhanced information system, building on the systems that were in use in Public Enterprise Supervisory Agency (PESA) and Ethiopia Privatization Agency (EPA) would also be designed and implemented[5].

(2) Transaction advisory services to the divestiture process - would support transaction advisors to assist PPESA at various stages in transactions for selected larger and more complex transactions.

(3) Environmental Audits - This would fund full and partial environmental s, identified as necessary during the environmental pre-audit.

(4) Retrenchment program - This would assist in dealing with excess labor in public enterprises slated for privatization.

(5) Studies - A short term consultancy will be funded to help design and implement a system to monitor compliance by investors with contract covenants.

17. **Component Two - Improving the Business Environment through implementation of Competition Policy and Accession to the WTO (IDA US$ 1.1 million.):** This component aimed at assisting the Government in the effective implementation of its competition policy, preparation for WTO accession negotiations, and long-term capacity building for the formulation and implementation of trade and competition policy. The ultimate objectives of the policy were to maintain and encourage competition, strengthen integration in the world economy, increase economic efficiency and competitiveness, and promote consumer welfare. Technical assistance and training were planned to be provided under the two sub-components covering competition policy and WTO accession:

18. *Subcomponent A* - Implementation of Competition Policy - would assist in the implementation of the Trade Practices Proclamation in order to ensure a level playing field, fair business practices, and greater accountability and transparency in government-business relations for all economic agents. It consisted of (i) preparation of implementation guidelines, regulations, procedures and methods relating to various provisions of the Proclamation; (ii) staff capacity and institution building through the provision of short term visiting international expert/advisers; and (iii) Materials - to ensure that staff in the Competition Commission, the Secretariat and in MoTI has the material support necessary to do their jobs.

19. *Subcomponent B* - Support to WTO Accession – would help the Government to prepare for negotiations on WTO accession by supplementing other bilateral assistance and coordinating closely with other donors and international agencies involved in the process. It consisted of: (i) Analytical studies of the different policy options open to the Government as it considers the degree and pace of liberalization that it was prepared to offer in various sectors; (ii) Short-term advisors to help in the preparation of responses to questions from WTO members, the elaboration of negotiating positions, and the delivery of workshops; (iii) Training - in addition to dissemination workshops for all studies, various seminars were to be conducted for the private sector, civil society and parliament

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[5] Privatization and Public Enterprises Agency (PPESA) was formed when Public Enterprise Supervisory Agency (PESA) and Ethiopia Privatization Agency (EPA) were merged under one Authority

in order to improve public awareness of the objectives, issues and challenges involved in WTO accession; and (iv) Materials and workshops - a limited amount of materials and documentation would be provided to ensure the Government Ministries have the materials to support their jobs.

20. **Component Three: Strengthening the international competitiveness of the private sector and the capacities of its representative organizations (IDA US$ 8 million.):** This component would help strengthen human and institutional capacity of the private sector. It included three complementary and mutually reinforcing sub-components.

21. *Subcomponent A* - BIZCAP – was aimed at building international competitiveness within private firms, and at building the capacity of private business and professional associations and of chambers to better serve their members. It consisted of two "windows." The first, FIRMCAP focused on building the international competitiveness of private firms. The proposed basic delivery mechanism was a Matching Grant Scheme (MGS) where an individual firm would finance an agreed proportion of the costs of training and/or technical assistance it desired. Three types of activities were to be carried out within FIRMCAP: (i) pro-active promotion to firms of the benefits of using business development services, in order to build competitiveness; (ii) free, on-going support and advice in preparing their requests for grant funding; and (iii) the grants themselves including approving requests on the basis of compliance with clear eligibility criteria, and monitoring implementation of supported activities. The second window, ASCAP (Matching Grant for Associations and Chambers) would provide support to private sector entities such as business and professional associations and chambers of commerce, so as to improve their advocacy capabilities, expand membership, and where appropriate, regulate professional codes of practice.

22. *Subcomponent B* – SCHOOLCAP - This sub-component would build on the IFC initiative called the Global Business School Network (GBSN) started in 2002 to strengthen the institutional capacity of Business Schools in developing countries. SCHOOLCAP would improve the capacity of the Faculty of Business and Economics at the Addis Ababa University. Through its activities, SCHOOLCAP would contribute to the development of a cadre of the middle managers that would be needed by an expanding private sector. It would also help strengthen the entrepreneurial spirit and innovativeness in the Ethiopian economy. It was also expected to strengthen the capacity of the public service to better understand and respond to the needs of the private sector. Activities planned included upgrading the program curriculum and support the implementation of the revisions, design courses in the areas of competition policy and WTO accession, annual training to transfer skills to the other business schools and regular publication both to communicate new knowledge and record the development of business education in Ethiopia.

23. *Subcomponent C* - BIZPLAN – Business Plan Competition (BIZPLAN) was designed to assist GoE's efforts to support and grow private SMEs in Ethiopia. The Ethiopian BIZPLAN aimed to provide technical and financial assistance to SMEs thus

enabling these entrepreneurs to strengthen their skills and increase the availability and quality of services, both financial and technical assistance. By engaging the private banks, BIZPLAN would also strengthen and develop their institutional capacity to provide better services, financial and non-financial, to the private sector. The Ethiopian BIZPLAN was to promote competition among entrepreneurs for new and pioneering ideas aimed at increasing efficiency and productivity, and demonstrate to Ethiopian banks that lending to SMEs is an attractive and viable business line. Finalists' of the BLZPLAN would receive technical assistance (TA) from the competition organizer and winners of the BIZPLAN would receive a financial award that would be placed as collateral in the private banks participating in the scheme, against which the bank(s) would provide leveraged lending.

1.5.1 Revised Components

24. The original components were not changed throughout the project period.

1.7 Other significant changes

25. During the global food crisis in 2008, the simultaneous impact of high inflation, widening trade deficit, severe drought and local food shortages had caused severe hardships for the country and, especially, the most vulnerable segments of the population. Even though the country's economy had been growing at double digit rates for the year prior to 2008, the growth had not removed the country's long-standing problem of pervasive food insecurity and severe vulnerability to shocks. Following the request by the Government of Ethiopia, the World Bank launched an emergency operation under the Global Food Crisis Response Program (GFRP) with the objective of ensuring Ethiopia's food security in 2009. The Program was financed from a combination of new IDA grant resources as well as redeployment of existing IDA commitments from 12 on-going projects in the existing IDA portfolio for a total amount of about US$137.5 million[6]. An amount equal to US$ 7 million (equivalent SDR 4.46 million) was reallocated from the Private Sector Development Capacity Building Project (Credit: US$ 6 million, Grant US$ 1 million), corresponding to a 28percent reduction of the original project amount[7]. Despite the substantial reduction, the PDO was still considered achievable and the reduction in the amount did not result in a cancellation of any component that required a restatement of the PDO.

26. The Project was restructured twice, extending the closing date by a total of 18 months. The first restructuring, dated April 1, 2008, extended the project from June 30, 2011 to July 31, 2012 for 13 months and restated the PDO to focus on export competitiveness. The second restructuring, dated July 3, 2012, was done to enable full

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[6] Emergency Food Crisis Response Program of the Federal Democratic Republic of Ethiopia Under the Global Food Crisis Response Program Emergency Program Paper for a proposed Additional Financing IDA Grant in the Amount of SDR 16.75 (US$25 million equivalent) for the Productive Safety Net APL II Project and Proposed IDA Grant in the amount SDR 85.5 million (US$127.5 million equivalent) and IDA Credit in the amount of SDR 82.1 million US$122.5 million equivalent) for a Fertilizer Support Project (Report No. 46658-ET dated November 25, 2008).

[7] Project Performance Assessment Report, Fertilizer Support project, Report No. 62834 dated 28 June 2011

utilization of resources and streamline the result indicators and extended the project closing date for additional 5 months from July 31, 2012 to December 31, 2012.

27. The local currency (Ethiopian Birr) was devalued three times since the start of the project resulting in more than 20percent devaluation of the local currency. This ultimately resulted in extra funds in Ethiopian Birr than originally envisaged.[8] The second restructuring of the project (dated 03 July 2012) reallocated most of these extra resources to component three for the Matching Grants Scheme.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

28. **Soundness of background analysis:** The preparation and design of the project relied on several analytical studies done by the Bank, the Government and other donors in the project intervention areas in Ethiopia and the experience of the Bank in sub Saharan Africa and other regions.[9] The project preparation also included a consultation workshop with the private sector, civil society and academia and incorporated the key lessons learned based on the findings from these consultations. The project was designed to support the policy dialogue under PRSC. It complimented the various interventions in private sector development by development partners and was consistent with the Country Assistance Strategy (CAS, August 2004) and the Government's development priorities (SDPRP).

29. **Project Design**: The project appraisal document identified sector specific constraints to the development of the private sector in Ethiopia such as dominant public sector in production and distribution activities, weak integration of the economy into the global economy and low productivity and competency of the private sector. The project design included interventions to address the main constraints in each of these areas. The design reflected lessons learnt to apply an integrated approach to private sector development through the three components of the project. It included privatization agenda, addressing business skills, creating competition by supporting startups, supporting the private sector institutions, direct financial support to the private sector and supporting the government in its WTO accession agenda.

30. The project design considered alternatives to the financing instrument and modality.[10] However, alternative interventions to achieving the intended objectives in the PDO were not explored. For instance, the project assumes the privatization of the State

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[8] The effective exchange rate used at appraisal (October 12, 2004) was 1 US$ to 8.6 ETB. The current exchange rate is 1 US$ to 18.5 ETB.

[9] The analytical studies considered for project design included; GoE " Developing a design for a Matching Grant Scheme for Private Sector in Ethiopia", Development of a capacity building program for sectoral and professional associations, WTO Road Map, categorization of public enterprises by Modes of Divestiture; and Bank studies " Investment climate assessment and its updates, Country Economic Memorandum with its several background studies, Principles and Approaches to Privatization in Ethiopia; as well as other studies and evaluation reports by other donors (EU, GTZ & AfDB).

[10] Some of the alternatives considered during project design were to finance the technical support through the PRSC, use of APL and to include separate component for staff retrenchment

Owned Enterprises (SOEs), which were mostly in the manufacturing industry, would contribute to the productivity and competitiveness of the firms. However, it did not explore alternative interventions that could have increased productivity and competitiveness of the SOEs such as increasing competition and political and administrative reforms.[11]

31. **Project Objectives**: The Project development objective as stated in the original DFA is to facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and competitiveness of the said sector. The development objective was defined by broad outcome indicators which make attribution of outcomes and results to project interventions difficult.[12] The objective assumes that project interventions would be able to address most of the challenges of the private sector in the economy. It also assumes that increased productivity and competitiveness would be as a result of the project interventions and overlooks other factors that may affect productivity such as technology, cost of doing business, etc.

32. The project components were in line with the project objectives and successful implementation of the interventions under the components would contribute to the increased productivity and competitiveness of the private sector.

33. The project components introduced new and innovative approaches to private sector development in Ethiopia. For instance, matching grant schemes and business plan competitions to spur entrepreneurship were introduced for the first time in the country under this project. The Privatization program benefited from a Voluntary Retrenchment Program designed in line with international best practices and the business school introduced new courses on applied trade policy, competition policy and regulatory economics with the support of the project.

34. **Implementation arrangements**: The executing agency for the project was Ministry of Industry[13]. A Project Coordination Unit was established under the Ministry and the project was implemented by four implementing agencies.[14] A Steering Committee, led by the State Minister for Ministry of Industry, and composed of public and private sector stakeholders was set up to provide guidance and oversight of the project.

35. This implementation set up provided strong leadership from the government and involved key private sector stakeholders through the Steering Committee in the oversight of project implementation.

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[11] Ha-Joon Change, United Nations, Department for Economic and Social Affairs (UNDESA), " State Owned Enterprise Reform", 2007

[12] The PDO was restated in subsequent restructuring (April 1, 2008) to focus on export competitiveness

[13] The Ministry of Trade and Industry was the main counterpart during the approval of the project. The Ministry was split into two Ministries (Ministry of Industry and Ministry of Trade) in 2010 and MoI became the executing agency for the project. The term Executing agency is used here to differentiate the agency ultimately responsible for the overall implementation of the project, from implementing agency which is used to define the agencies which actually carried out the activities of the project.

[14] During the design, the project was to be implemented by Privatization and Public Enterprises Authority (PPESA) for component one, Ministry of Industry and Trade (MoTI) for Component two, Addis Ababa University (AAU) and Enterprise Ethiopia (MoTI) for component Three.

36. However, the decentralized implementation of the project by four agencies created some challenge in monitoring compliance with Bank procedures such as procurement and financial management.

37. **Adequacy of Government's commitment:** The relatively successful implementation of the project for the most part and the involvement of high level officials of MoI in the project implementation indicate Government ownership of the project. The Government has provided consistent support, including counterpart funding in the amount of about ETB 19.23 million (US$ equivalent of 1.1 million)[15] towards project implementation.

38. **Risk and Risk mitigation:** The project design identified the key risk elements, some of which had an impact on the implementation of the project. For instance, weak supply response from the private sector was identified as one area with significant risk of realization. As anticipated in the risk analysis, most of the project beneficiaries were from the capital city and the number of beneficiaries from the regions is small compared to the capital city, Addis Ababa. It shows that the risk mitigation measure proposed was either not effective or properly implemented. It is very likely that this risk could have been minimized if a demand assessment had been prepared during project preparation or if the project design had included a mechanism to increase the participation from the regions during project implementation..

39. It should also be noted that timely implementation of the PSD policy agenda did not fully materialize as identified in the risk analysis. The Bank's budget support to the Government through the PRSC was suspended following election disputes in 2005 which ended the mechanism for policy dialogue between the Bank and the Government.

40. In addition, the weak capacity (awareness) of the private sector to implement the matching grants scheme should also have been considered as a risk as it created delays in project implementation and low uptake of the demand driven activities at the initial stage of the project.

2.2 Implementation

41. As stated earlier, an amount of US$ 7 million (equivalent SDR 4.46 million) was reallocated from the Private Sector Development Capacity Building Project (Credit: US$ 6 million, Grant US$ 1 million) to the emergency operation under the Global Food Crisis Response Program (GFRP). This reduced the overall resources available for the implementation of project activities.

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[15] This amount refers to only the direct cash contribution from the Government and does not include in kind contribution such as staff time, operating costs etc.

42. The appreciation of the SDR against the US Dollar and the devaluation of the local currency (Ethiopian Birr) resulted in close to USS 1 million foreign exchange gain, making additional resources available for project implementation.

43. The Project was restructured twice to re-align the project development objective to the Government's emerging development strategy; to reallocate the extra resources as well as to adjust to the reduction; and to streamline the outcome indicators in line with the PDO. These changes enabled the project to respond to changing Government priorities. The closing date for the project was also extended by a total of 18 months, which enabled the project to achieve most of its targets and exceed some.

44. The Project Coordination Unit (PCU) experienced some staff turnover at the initial stage of the project but maintained most of its staff throughout project implementation. This has enabled smooth implementation of activities.

45. Based on the capacity assessment done during the design of the project, the PCU was to be fully staffed including a dedicated financial management and procurement staff. However, when the procurement specialist hired for the PCU resigned, replacement was not done until the end of the project. This was exacerbated by the fact that four implementing agencies were involved to carry out project activities and procurements. This created monitoring and coordination challenge in procurement and contracts management.[16]

46. The original design of the project for the implementation of component three (BIZCAP and BIZPLAN) was to support a Business Management Unit (Enterprise Ethiopia) within the existing structure in Ministry of Industry and Trade. However, this arrangement did not become effective in managing the project activities and initially created delay in implementation. Subsequently, it was agreed to set up a semi-autonomous unit, [17] Ethiopia Competitiveness Facility (ECF), fully dedicated to implement the various activities under component three of the project. In addition, the complexity in the design for the Voluntary Retrenchment Program (VRP) created some delay initially in the implementation of the privatization program.

47. Additional financing for the project was requested and a pre-appraisal mission was carried out in February 2011. However, the additional financing did not go through due to disagreements on proposals made for additional safeguard measures and the project's failure to comply with fiduciary requirement to submit a Special Audit Report for the Voluntary Retrenchment Program (VRP) under the privatization component.[18] The additional financing would have provided the opportunity to expand the project interventions and increase its impact for the development of the private sector.

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[16] The project faced two contract disputes during project implementation.

[17] Ethiopia Competitiveness Facility (ECF) was created under the management of the Project Coordination Unit, independent of the organizational structure of the Ministry of Industry, and staffed with experts recruited competitively from the market.

[18] The original financing agreement states that "the borrower shall, not later than December 31 in each FY, carry out an audit of the implementation of the severance payment program, including the identification of actual beneficiaries and the disbursement arrangements in respect thereof." DFA dated 10 March 2005, page 34 (item 8.)

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

48. **M & E Design:** The original PDO had three outcome indicators; (i) Increased private investment to GDP ratio from 10.5percent in 2003/04 to 15percent in 2009; (ii) 4,500 new jobs created in the private sector by project end; and (iii) value added per worker increased by 20percent in participating firms. While indicator (ii) can be directly attributed to the project interventions and measured under the matching grants scheme, the indicator on value added per worker (iii) was found to be difficult to measure as no mechanism was put in place to measure and track the value added. The first indicator on increased private investment to GDP (i) was dropped as it would be difficult to attribute to project interventions.

49. Most of the intermediate results indicators were specific, measurable, attributable and relevant. However, some of the indicators (such as increase in exports, increase in sales of domestic market suppliers, increase in membership of associations, increase in qualified faculty and increase in annual subscribers to AAU journal) were found to be either difficult to measure or irrelevant to the change to the revised PDO (restructuring dated April 1, 2008). The design could also have considered additional result indicator for component three to track the number of business startups established through BIZPLAN competition, which was subsequently done through restructuring. The revised indicators, in general, also followed the SMART principle though the revision of some of the indicators was done very late in the project lifetime.

50. The design of the arrangements for result monitoring relied on annual reports from the Ministry of Finance and PCU. Project impact data collection was mainly the responsibility of the PCU and the statistics department. However, the project implementation arrangement did not include a recruitment of an M & E specialist within the PCU.

51. A monitoring and evaluation system was prepared and incorporated in the Project Implementation Plan (PIP). However, the PAD did not have baseline data at design for two of the three outcome indicators, which were supposed to be determined the first year of project implementation through data collection by the PCU[19].

52. **M & E implementation**: One of the original outcome indicators and some of the intermediate result indicators were found to be difficult to measure during the implementation of the project. In addition, the project development objective was revised during restructuring (April 1, 2008) to align the project with the shift in Government's strategy to focus on export oriented selected sectors. This resulted in revising some of the indicators and dropping others which were no longer found to be relevant.

53. The second restructuring of the project (July 3, 2012) further streamlined the PDO indicators with the intermediate result indicators. One of the reasons for the restructuring

[19] The baseline data for one of the indicators was later on established through data collected by the PCU while the other one was subsequently dropped during restructuring.

was to ensure the continuous relevance of the project to the Government's new Growth and Transformation Plan (GTP, 2010/11-2014/15) that emphasizes the leading role of manufacturing industry in overall growth of the economy and job creation. Progress towards outcome was to be captured through increased exports and new jobs indicators.

54. Recent progress of the project towards the achievement of targets has been properly documented in the Implementation Status and Results Report (ISR)[20] using specific data for results achieved.

55. However, the results achieved on some of the result indicators which were later on changed or dropped is not readily available either because no data was collected at the time or the information was not properly consolidated to show the overall achievements (contribution) of the project against all the indicators used throughout project implementation.

56. Lastly, it is noted that the ISR of the project used a slightly different statement for the project development objective than in the restructured DFA (April 1, 2008)[21]. The PDO is stated as "To improve the enabling environment and institutional capacity for a sustained increase in private sector investment and exports". No documentation could be found that identifies the source of this statement.

57. **M & E utilization:** It appears the results framework was adequately utilized and progress was tracked throughout the implementation which had led to an attempt for additional financing[22] for the project and the final restructuring in July 3, 2013 where resources were reallocated to best performing components to strengthen the impact of the project.

2.4 Safeguard and Fiduciary Compliance

58. **Safeguard:** The project was a category B as the implementation of the privatization program raised the issue of responsibility for environmental impacts from past and ongoing operations as well as broader concerns of environmental management. During project preparation an environmental pre-audit was undertaken that: (i) measured the environmental and social conditions, for both past and on-going activities, of the selected enterprises against the risk of being held responsible for damage; (ii) determined the need for remedial actions necessary to bring a given enterprise into compliance with national and bank safeguard policies prior to privatization; and (iii) formulated recommendations for partial and full audits for each facility or site, as applicable, and suggested a framework for subsequent audits[23]. Accordingly, full environmental audit on 24 SOEs and partial audits on 72 enterprises were conducted under the support of the project.

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[20] ISR Seq. No. 17 dated 26 December 2012

[21] The PDO in the DFA dated April 1, 2008 reads as "To facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and export competitiveness".

[22] Additional financing for the project was proposed in 2011 but did not reach Board approach stage due to inconclusive negotiation.

[23] Integrated Safeguards Data Sheet (ISDS), report No. 30638 dated November 14, 2004.

59. **Financial Management:** In general, the project maintained good financial management systems throughout the life of the project. The project complied with most of the requisite financial covenants outlined in its legal agreement which included submission of quarterly IFRs and annual audits. However, there was a delay in submission of a special audit report for the Voluntary Retrenchment Program (VRP) (discussed below). Counterpart funds were contributed to support project implementation.

60. *Special audit of VRP issues*- The special audit of the VRP component was a legal requirement which was not timely complied with. When the audit was conducted in 2011, it was found that a significant amount of resources disbursed represented overpayments, which resulted in a refund amount of close to US$ 1.6 million back to the designated account.

61. The financial management risk ratings during project implementation were mostly rated Moderate.

62. **Procurement Management:** Most of the planned procurement activities were implemented in a timely manner. The last Post Procurement Review (PPR) of the project showed that there were procedural gaps associated with procurement capacity limitations in the implementing Agencies (IAs) and that there were weaknesses in institutionalizing good practices of public procurement management and performance. The project had challenges such as procurement staff turnover, contract administration and complete documentation of procurements and contracts.

2.5 Post-completion Operation/Next Phase

63. The Ethiopia Competitiveness Facility (ECF) was created under the project to carry out activities under component three of the project – Strengthening the international competitiveness of the private sector and the capacity of its representative organizations. The implementation of this component was found to be successful based on an independent impact assessment of the program commissioned by DFID[24]. Based on the recommendations of this assessment, DFID has committed GBP 4 million to support ECF to continue the matching grants fund to firms (FIRMCap) to increase their productivity and competiveness.

64. The support under SCHOOLCAP subcomponent for graduate level program on regulatory economics and trade policy was taken up by the European Union with financing of Euro 800,000. It supported additional 50 students and closed end of 2012. The EU is planning to continue its support to the program under its proposed new project on Trade Enhancement and Facilitation.[25]

[24] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

[25] Information received from the delegation of the European Commission in Ethiopia, May 2013.

65. The privatization program as well as the implementation of competition policy will be continued by the Government beyond Bank's financing; and there is a possibility of support from the Chinese Government to support the Government of Ethiopia's accession to the WTO.

66. Moreover, the bank is in the process of designing a new project to promote Competiveness and Job Creation that would build upon the results of this project in export development, firm level support and job creation.

3. Assessment of Outcomes

67. The language in the original PDO was slightly restated during the restructuring done in April 2008 by adding the term "export" on competitiveness with no other difference between the original and revised PDO. Hence, for the purpose of this project implementation completion review, the restated PDO[26] is used to assess the outcomes.

68. In addition, the outcome indicators were revised twice in the restructurings of 1 April 2008 and 3 July 2012. The indicators that were dropped (Private investment to GDP –including privatized firms and value added per worker) were found to be difficult to attribute to the project interventions as well as difficult to measure. Further, results using these indicators were never measured. This is a reflection of weakness in the original design in the selection of the indicators, which is indicated in the report in the section on the assessment of quality of entry. As the PDO was not significantly changed and the outcome indicators revised were found to be not appropriate to measure the outcome of the project, a split evaluation of project outcome using the original indicators would not provide a meaningful assessment nor yield any significant impact on ratings.

3.1 Relevance of Objectives, Design and Implementation

Rating: Substantial

69. During the preparation and design of the project, the Government of Ethiopia was implementing its economic reform program on poverty reduction through rapid economic growth within a framework of macroeconomic stability and positive social impact. The government had initiated a number of reforms in the public and private sector. The Sustainable Development and Poverty Reduction Program (SDPRP) of the government in the 1990s set the background and context for the project. In subsequent years during the implementation of the project, the Government's strategy shifted towards promoting export led industrialization. The current strategy of the Government, Growth and Transformation Plan (GTP, 2010/11-2014/15) emphasizes the leading role of the manufacturing sector in the economy and job creation. It gives particular emphasis to

[26] The revised objective of the project is to facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and export competiveness (Agreement providing for the amendment and restatement of the Development Financing Agreement, dated April 1, 2008).

selected sectors that are labor intensive, use agricultural products, are export oriented and import substituting and contribute to rapid technology transfer.[27]

70. The design of the project took into account a number of assessments and analyses done by the Bank and others. It incorporated lessons learned from other projects of a similar nature in Ethiopia and other countries and used an integrated approach to achieve the project objectives.

71. The project components and subcomponents were designed to address the key themes of the project development objective: increased participation of the private sector, improving productivity, and export competitiveness. Increased participation of the private sector was targeted through privatization, business plan competition, matching grants scheme and support to private sector institutions; increased productivity was to be achieved through privatization, matching grants scheme, competition policy and skills development (SCHOOLCAP) and export competitiveness was supported through matching grants scheme and WTO accession. The project's original intended objectives as well as the revised one remained relevant to the Government's strategy as it focused on productivity and competitiveness of firms in manufacturing industries, job creation and exports.

72. The design of the project also involved four implementing agencies. Each agency was responsible for the implementation of a component or subcomponent, which were not interdependent on one another. However, this arrangement has compromised the quality of procurement processes and contracts management.

73. Moreover, the initial design of the implementation arrangement did not put in place an independent unit to implement component three of the project (Strengthening the international competitiveness of the private sector and the capacities of its representative organization). The original plan for the implementation of this component was to strengthen an existing unit (Enterprise Ethiopia) within the Ministry of Industry. However, it took a long time to start the implementation of the interventions, at the end of which the implementation arrangement had to be changed and a new semi-autonomous unit, Ethiopia Competitiveness Facility (ECF), fully staffed with competitively recruited employees was established.

74. The implementation of the project was kept in line with the Government's priorities and strategy. The Project maintained its relevance throughout implementation by revising the development objective (restructuring, April 2008) and the key outcome indicators (restructuring April 2008 & July 2012) in line with the Government's emerging strategies. Two of the three original outcome indicators (Private investment to GDP and value added per worker) were revised as they were found to be either too broad, difficult to attribute to the project interventions or difficult to measure. In addition, one of the outcome indicators introduced during the first restructuring (value of exports) was dropped at the subsequent restructuring as it was found to be too difficult to track under

[27] Federal Democratic Republic of Ethiopia, Growth and Transformation Plan (2010/11-2014/15), (P. 56), Vol. 1, November 2010.

the project. Some of the intermediate result indicators set during design such as increase in sales of supported domestic market suppliers, increase in the number of annual subscribers to the Addis Ababa University journal etc. had lost their relevance to the Government's evolving strategy and were subsequently dropped during the restructurings. However, the final restructuring of the project that streamlined most of the result indicators to the PDO was done very late in the project lifetime, July 2012, with only six months left for closure. Even though an attempt was made to restructure the result framework and the indicators during the additional financing in 2011[28], the proposal for the additional financing did not get through.[29]

75. Additional resources were reallocated in a timely fashion to continue the successful matching grants scheme that directly addressed the Government's priority agenda. The original project components were found to be relevant to the revised development objective as it already incorporated interventions that supported export industries.

76. Equally important, the restructured project maintained its relevance to the new Ethiopia Country Partnership Strategy (CPS, FY 13-16) of the Bank that was approved on September 25, 2012. A key pillar of the CPS is to increase competitiveness and productivity, with the focus on increased competitiveness in the manufacturing sector.

77. As noted above, the project objectives, design and implementation had kept pace with the changing environment and adequate adjustments were made on the project development objective and project design, the outcome and result indicators and implementations arrangements to keep the project relevant and achieve its intended purposes. In addition, the fact that a range of activities received funding to continue operation shows that the project objective is still relevant to the Government's agenda.[30] Therefore, the relevance of the project is rated *high.*

3.2 Achievement of Project Development Objectives

Rating: Substantial

78. **Achievement of the PDO**: Overall, it can be reasonably said that the project was able to substantially achieve its development objective to facilitate increased participation of the private sector in the economy by creating conditions for improving productivity and export competitiveness. Except for the relative weak performance of component two, which accounted for 5percent of project budget, the project was able to meet or exceed its set targets and complete the interventions envisaged during the design. The successful implementation of project interventions have contributed to the increase in participation of the private sector through privatization of state owned enterprises, increased

[28] Based on inputs from the bank task team
[29] The additional financing for the project proposed in 2011 did not reach Board approach stage due to inconclusive negotiation
[30] The Matching Grants scheme will be continued under DFID funding, the SchoolCap program was supported by EU after Bank financing ended and Privatization program as well as the implementation of competition policy continues to be implemented by Government own sources.

productivity and competitiveness through the matching grants scheme and by supporting startups through business plan competitions. The Project interventions supported technology and skills transfer under the matching grant schemes, enhanced the available skill supply for the private sector through support to the business school and provided support for market development, technology transfer, amendments of competition policy and WTO accession.

79. Table 2 below shows the linkage between the results achieved and the project development objective. For ease of analysis, the PDO has been split into three intended outcomes: (i) increasing participation of the private sector, (ii) improving productivity, and (iii) export competitiveness.

Table 2

Intended outcome	Intervention	Result achieved
Increasing participation of the private sector	- Privatization of SOEs - Matching Grants Scheme - BIZPLAN	- 44 SOEs were transferred to private ownership and 77percent of SOE total asset value SOE identified in the PAD have gone through divestiture by the end of the project - Volume of exports by beneficiary firms has increased by 29percent, with estimated increase in revenue of US$ 35 million[31]. - 5,719 new jobs were created by MGS beneficiary firms (of which 60.4percent were women) - PPESA data shows that though redundant employees were laid off during privatizations of SOEs, the privatized enterprises which have started generating net profit have started increasing the number of their employees. - 52 new businesses were established, out of which 77percent (40) have survived after the first year of operation
Improving productivity	- Matching Grants Scheme - SCHOOL CAP	- Volume of exports increased by 29percent - Curricula was revised for MBA and MSc in accounting and Finance programs and new courses were introduced to enhance skills of business graduates

[31] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

Export competitiveness	- Matching Grants Scheme - Support to WTO Accession - SCHOOLCAP	- 20 firms have started exporting as a result of the support under the MGS - Estimated increase in revenue of US$ 35 million in beneficiary firms - Competition policy was revised - Three impact assessment studies were carried out and technical support provided to support the WTO accession process - Master's program on regulatory economics and trade policy was supported under the project and 41 students graduated. Additional 4 PHD candidates were financed by the project.

80. The analysis below looks at achievement of the outcome indicators as revised during the final restructuring in July 2012.

81. *PDO Indicator 1- Number of private sector jobs created in participating firms and targeted sectors (target: at least 10percent, baseline: 1,917)* [32] **–** The indicator tracks the number of private sector jobs created in participating firms and targeted sectors under the matching grants scheme and is measured as an average across all benefitting firms at the end of the project. According to the ECF progress report (April 2013), total new jobs created in all benefitted firms was 5,719 [33] by the beneficiary firms under the matching grants scheme only. This exceeds the target of 10percent additional jobs, equivalent to 2,109 jobs. The independent impact assessment of ECF commissioned by DFID[34] found out that 39percent of the 25 firms surveyed indicated that they would have had fewer employees if they had not participated in the Matching Grants Scheme, primarily due to ECF helping them find new market opportunities that increased demand for their products. Eight firms (32percent) have attributed 1,397 new jobs to the project. However, most of the firms surveyed explained that the grants had increased productivity substantially that they were producing significantly more per employee and thus were able to meet growing demand with the same number of employees.[35]

82. The participation of the private sector is measured here by the number of additional jobs created by the beneficiary firms. Due to the support provided by the project, firms were able to increase demand by accessing new markets and increased productivity that enabled them to employ more people to meet the increasing demand. This had a direct impact on the project objective of increased private sector participation in the economy by creating jobs to the population.

[32] A baseline of 1917 jobs is used in the results framework, which means the end target is at least 2,109 new jobs.
[33] ECF performance report, April 2013.
[34] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012
[35] Due to the small number of the sample enterprises survey for the assessment, it would be difficult to do a rigorous statistical analysis of the effects of the interventions. The assessment result uses the responses by the sample firms as the best option available.

83. Though the increase in the number of new jobs created under the project was not tracked under the privatization program, data from PPESA show that though redundant employees were laid off during privatizations of SOEs, the privatized enterprises which have started generating net profit have started increasing the number of their employees; hence contributing to the increase in employment in the economy.

84. *PDO Indicator 2- Proportion of total value of public enterprise assets transferred to the private sector management and ownership (target: 27percent by Yr. 3 and 55percent by Yr. 5)* – The project supported the privatization of 77percent[36] of the total asset value of the 55 State Owned Enterprises identified during appraisal, exceeding its target of 55percent of total asset value. Out of the 55 SOEs identified in the PAD for privatization under the project, 44 of them have been transferred to private ownership through sale, joint venture, liquidation or lease.

85. The project supported the Government's ongoing privatization program. The Government privatized an additional 79 SOEs[37] outside of the project using its own resources. It is reasonable to infer that, even though it is very likely that the privatization of the SOEs supported by the project would have been done through government's own resources, the project provided additional resources for privatization which enabled privatization of a total of 126 SOEs, which probably would not have been possible without the project's support. In addition, the project financed international expertise and technical support which enhanced the capacity and skills of the privatization agency in carrying out privatization program.

86. *PDO Indicator 3 – Value of exports in participating firms and targeted sectors, at least 25percent increase in exports and/ or at least 10 firms starting to export as a result of the support* – The support under the matching grant scheme was primarily used by firms to get international expertise and benchmarking exercises to increase quality and productivity as well as for market development. The Project's progress report[38] indicates that on average there was a 29percent increase in the value of exports and 20 firms, which were not exporting before project interventions, had started exporting.[39] According to the independent impact assessment, the total estimated increase in revenues attributable to ECF by the 25 sample firms who were able to provide an estimate, was over US$ 16 million. When grossed up to the overall number of firms supported (55)[40], the gross annual sales turnover impact of ECF was estimated at US$ 35.4 million.[41]

87. The achievement under this indicator meets the project development objective of creating conditions for improved productivity and export competitiveness as it contributed to the increase in exports which in turn increases the private sectors'

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[36] ISR Seq. No. 17 dated 26 December 2012
[37] Cumulative performance report, PPESA, March 2012
[38] ECF performance report, April 2013
[39] ECF progress report, April 2013.
[40] The US$ 16 million sales increment based on the 235 firms surveyed is iterated to 55 of the total firms supported, which resulted in gross annual sales impact of US$ 35.4 million.
[41] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

contribution to the economy though export revenue. In addition, it has a long term impact of creating knowledge and awareness within the private sector on how to access new markets, firm's performance as compared to international competitors and areas of improvement to further enhance productivity.

88. *PDO Indicator 4 - Direct project beneficiaries (number) of which female (5000, 50percent)* – This indicator is linked to the outcome indicator on number of jobs created in participating firms and targeted sectors under the matching grants scheme. It refers to the share of women in those firms workforce that have benefited from these grants. Within the firms that received support through the MGS, the proportion of women employees out of the total additional jobs created in the beneficiary firms was 60.4 percent, which exceeds the set target of 50percent[42].

89. The participation of women as project beneficiaries contributes to the increased role of women in the economy and its spillover effect on improved livelihood.

Achievement of Intermediate results

90. *Component one- Intermediate Indicator 1 – Number of public enterprises sold to the private sector (target: 10 per annum in 2004/05 – 2008/09 period)* – By the end of 2009, twenty nine SOEs were privatized. At the end of the project, forty seven SOEs were divested; out of which forty four were transferred to private ownership[43] while three were transferred to another government entity. This exceeds the project target to transfer forty public enterprises to private ownership. The transfer of SOEs to private ownership contributes to the increase in private sector investments, hence increasing the private sector's role in the overall economy.

91. *Component Two - Intermediate Indicator 1 – Revised competition policy enacted with framework for fair trade practices and anti-trust separate from anti-dumping and consumer protection framework* - A revised competition policy with framework for fair trade practices and anti-trust separate from antidumping and consumer protection framework, based on international best practice, was enacted as planned during the project implementation period.

92. *Component Two - Intermediate Indicator 2 – Independent competition authority and secretariat with wider representation by public and private sector specialist and other stakeholders* - The objective to establish an independent competition authority and secretariat with wider representation by public and private sector specialist and other stakeholders was partially fulfilled in that an independent competition authority is set up.

42 ECF progress report, April 2013

43 An enterprise will be deemed to have been privatized when its ownership or control of the business has been transferred to the private sector. This will apply regardless of the method of privatization used to transfer control. One hundred percent of the assets of any enterprise deemed to have been privatized will count as having been privatized for the purpose of evaluation and performance monitoring. Control of a business will be deemed to have been transferred to the private sector if either: (i) The government owns less than 50 percent of the shares of the business (including liquidation), or (ii) Management of the business has been transferred to the private sector by way of a contract. The contract can be either a management contract of three to five years, renewable, or through a long term concession or lease. Where transfer of control is by way of contract, should the contract expire or be cancelled, the enterprise will no longer be deemed to have been privatized (PAD, Page 29)

The authority replaced the Trade Practice Investigation Commission established under the previous competition law. However, the new independent competition authority was established late in the project period and was not fully staffed by the end of the project.

93. *Component Two - Intermediate Indicators 3 – Studies on Ethiopia WTO accessions prepared, disseminated to, and discussed by, WTO taskforce* - Three studies on WTO accession, for financial, telecommunications and transport sectors have been conducted, disseminated and discussed by stakeholders as well as the WTO Task Force and National Steering Committee. In addition, third working party discussions[44] were supported by the project.

94. The achievement of the targets under component two encourages a more competitive environment that would typically lead to less barriers to entry to the private sector and increase the share of the private sector. However, some of the targets were not fully met which may have slowed down the pace of establishment of a more competitive business environment and the country's attempt to join the WTO, though the latter was affected by a number of various factors.

95. *Component Three - Intermediate Indicator 1 – Number of Matching Grant Support given to private firms for export expansion (target:150)* **–** The Matching grant scheme provided 165 grants to 55 companies across six sectors. The activities supported under the scheme included market development, international expertise on product development and production, system development, ISO and related certification and workforce and management training.

96. The MGS provided direct support that contributed to increasing productivity and export competitiveness. The impact of the matching grant scheme can be assessed by the increase in export revenue of beneficiary firms. The independent assessment carried out on the matching Grants scheme found out that the increase in revenue attributable to ECF by the 13 sample firms who were able to estimate was over US$ 16 million. Grossed up to the overall number of firms supported, the gross annual turnover impact of ECF is estimated at US$ 35.4 million[45]. This means that the private sector has increased its contribution to export revenue by improving its productivity and international competitiveness.

97. The intervention under this component also included support to Chambers of Commerce and business association and grant for institutional development was given to 25 institutions.

98. *Component Three - Intermediate Indicator 2 – Number of startups established through business plan competition each year (target: 20 each in round 1 and 2)* – Four

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[44] Any state or customs territory having full autonomy in the conduct of its trade policies may become a member ("accede to") the WTO, but all WTO members must agree on the terms. This is done through the establishment of a working party of WTO members and through a process of negotiations. (WTO.org)

[45] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

rounds of business plan competition were carried out. Fifty two businesses were established through the first three rounds[46], out of which six were women owned. The fourth round of competition was conducted late in the project life time so the number of business startups as a result of the support from the fourth round of competition is not yet available.

99. *Component Three - Intermediate Indicator 3 – Proportion of startups established through business plan competition that survive after one year in operation (target: 70percent)* - Out of the total fifty two businesses that were established in the three rounds, forty businesses, which account for 77percent of the startups, had survived after the first year of operation.[47]

100. The support to business startups encouraged entrepreneurship which increased the number of private sector players in the economy. The project's support provided resources and technical assistance which has enabled forty businesses to be established and contribute to job creation and government revenue.

101. *Component Three - Intermediate Indicators 4 – University (FBE) curriculum revised and adopted* - Through the support provided to the Faculty of Business and Economics (Addis Ababa University), revision of curricula for the MBA program, M.Sc. in Accounting and MSC program in Management Science was completed and implemented. Curricula for Undergraduate and postgraduate programs in Finance were developed and implemented.

102. *Component Three Intermediate Indicator 5 – Number of graduates in regulatory economics and international trade programs in year 3 and 4 (target: 20)* - The number of graduates in regulatory economies and international trade were twenty in year 3 and twenty one in year 4 (total of 41 students), thus meeting the set target of forty students by end of 2009. In addition four PHD candidates were sponsored.

103. The technical assistance provided to the business school improved the quality of business education which has a positive impact on the private sector which employs the graduates in various capacities. A better qualified employee would likely bring improved business management to the firms, hence having a positive effect on the productivity of firms as well as their international competitiveness. It also increased the available technical expertise in country on regulatory economics and trade policy to support the Government's effort towards WTO membership.

104. Almost all the interventions under the project have met or exceeded their targets. The achievement of the intermediate indicators contributed to the outcome indicators as they tracked achievements specifically attributable to the project interventions as demonstrated above. The impact of the weaker achievements in some of the interventions

[46] ECF Progress report, April 2013
[47] ECF Progress report, April 2013

did not have significant impact on the outcome indicators as they were minor interventions (in terms of scope as well as funding) as compared to the others.

3.3 Efficiency

Rating: Substantial

105. The Bank's disbursement record shows that the project managed to complete its planned activities with a total cost of about SDR 9.87 million (equivalent of US$14.9 million) against the budget for both credit and grant, after the reallocation of SDR 4.46 million (equivalent of US$ 7 million) to the Global Food Crisis Initiative. The disbursement rate as of April 29, 2013 was 92percent. Even though resources were reduced from the project budget, the devaluation of the local currency by about 20percent during the project implementation period had provided more Ethiopian Birr per one US$ to carry out project activities. In addition, there was some saving from the compensation payments under the Voluntary Retrenchment Plan (VRP) as the number of employees affected under the plan was lower than originally anticipated. Even though the project was extended for additional 18 months, the operating cost for the project was within budget and only 81percent of the allocated budget was utilized at the end of the project. The cost efficiency of running the project may be as a result of prudent utilization of funds and/ or the government's contribution for project management.

Component one – *Accelerating the Implementation of privatization program*

106. For the economic analysis done during the design, the PAD indicates that due to lack of reliable time series data, proxy estimates are used when explicit prices and calibrations factors were not available. Pre-privatization data collected from the Privatization and Public Enterprises Agency (PPESA) does not relate to the numbers used in the analysis during design. To carry out a robust quantitative economic analysis for this component for the ICR, complete data is not available for all the privatized SOEs which has made calculations of NPV and IRR difficult. Hence, alternative mechanisms are used to assess the efficiency of implementation of this component.

107. The original amount budgeted for component one was US$ 9.87 million, including grant for the implementation of VRP. This has been revised to US$ 6.14 million during restructuring. At project end, the component had utilized US$ 6.33 million, which is 103percent of the revised budget. On the other hand, the resources allocated to the VRP were not fully utilized and would result in a refund of an amount equivalent to US$ 1.6 million back to the Bank, which is an opportunity cost for IDA resources.

108. When the project was designed, there was large public sector involvement in commercial enterprises, which accounted for 72percent of total manufacturing value added and employed 57percent of the manufacturing workforce, while the participation of the private sector in manufacturing was limited. As a result of the project's support to the Government's privatization program, 44 SOEs were transferred to private ownership increasing the participation of the private sector in the economy.

109. On the other hand, the fiscal savings as a result of privatizing commercial state owned enterprises were significant as most of the enterprises were set up with an additional objective of social protection, in line with the socialist policy at the time. The available data shows that most of the enterprises were operating under losses and had many redundant workers. They were subsidized by central government budget and the leadership and management of these enterprises were more politically motivated than merit based. Under such circumstances, transferring these firms to private ownership will reinforce the commercial purpose of the firms with a pure focus on profitability. The Government would also save resources as it would no longer subsidize these enterprises but rather begin to earn tax revenue from privatized enterprises which had become profitable ventures. Furthermore, PPESA data shows that the Government earned over 1 billion US dollars (using current exchange rates) from the proceeds of the sale of SOEs since the beginning of the privatization program.

Component Two – *Improving the Business environment through Implementation of competition policy and Accession to the WTO*

110. The project has implemented most of the proposed activities under this component. In particular, the revised competition policy had been ratified and implemented, competition authority was set up and some staff hired. There was no economic analysis done during project design as it was found to be difficult to estimate the quantitative impact of the improvement in the business environment as well as the greater insertion into the world economy. Hence, a simple assumption was made that the support provided would yield an increase in economic outputs at a multiple of 2 times the amount of support. Even though it is difficult to quantify the future benefits of the project's support towards Ethiopia's accession to the WTO, the cost efficiency of the project implementation can be estimated by comparing the budget for the component with the actual expenditure. The original budget for the component was US$ 1.1 million, which was revised to US$ 960,000 during restructuring. By project end, an amount of US$ 823,000 was spent under the component. The underutilization of the project was mainly due to non-implementation of some of the activities and the overall slow pace of progress during project implementation period.

111. At the time of project design, the Ethiopian economy was not well integrated into the international economy. FDI penetration was low with inflow of only US$ 189 million (2002/2003). In 2012, FDI inflows have increased to over 1 billion US Dollars. Through the support to improve the competition policy and its governing authority, the project has contributed to better business environment even though it would be difficult to fully attribute the increase in FDI to the project's interventions. By providing technical assistance towards WTO accession, the project has enhanced the capacity and knowledge of the government staff in WTO discussions.

Component Three – *Strengthening the international competitiveness of the private Sector and the capacities of its representative Organizations*

112. Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility (ECF)[48] was conducted in 2012 commissioned by DFID in preparation for its envisaged support to ECF after the closure of the Bank's supported project. The impact assessment shows that the gross discounted turnover impact of the intervention under the Bizcap (Matching Grants scheme) is about US$ 78.8 million, with a gross discounted GDP impact of about US$ 52.6 million. The cost benefit analysis resulted in a discounted total cost of about US$ 5.85 million which is translated into a positive Net Present Value (NPV) of US$ 29.5 million and a benefit cost ratio (BCR) of 6.04. The economic analysis on ECF alone exceeded the original analysis for the overall project which estimated NPV of US$ 22.6 million.

113. The matching Grant scheme also supported private sector institutions such as associations and chambers of commerce by providing resources for trainings, marketing and institutional support which would have been more difficult for the associations to fund themselves given their limited financial resources.

114. One area of assistance was to enhance business education at the business school. Before the project, the largest and established university, (Addis Ababa University) did not have strong MBA and MSC in accounting programs and did not have Master's level programs in Finance and Management Science. The project enabled strengthening these business programs, which would increase the availability and quality of business professionals available to the private sector**.**

115. The project introduced business plan competitions and awards to entrepreneurs which did not exist before in Ethiopia. Coming from a socialist economy, the culture of entrepreneurship and innovation was weak in the country. Through the project's initiatives, over 1,300 people were able to compete and demonstrate innovative ideas through the competitions which resulted in the establishment of 52 businesses (out of which 52 have survived).

116. When the project was restructured in July 2012, additional resources were allocated to Component three, making the total allocated US$ 9.19 million, from the original US$ 8 million. By project end, the project had utilized US$ 8.6 million to implement activities under this component. As per discussions with the ECF team, the slight underutilization was because some firms were not able to fully utilize their approved grant before project closing date.

[48] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

3.4 Justification of Overall Outcome Rating

Rating: Satisfactory

117. The overall outcome of the project is rated as satisfactory by taking into account the substantial relevance of the project objective, design and implementation as well as the substantial achievement of its development objectives and efficiency of performance.

118. The project interventions were in line with the intended outcomes and most of the interventions have achieved or exceeded their set targets. Even though few activities under component two were not fully implemented, the activities and the allocated budget for this component were not significant enough to have a strong negative impact on the overall intended outcome of the project to increase participation of the private sector in the economy.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

119. One of the intermediate results of the project was to support entrepreneurs start their own businesses. The project supported a total of 70 entrepreneurs. Over 90percent of the beneficiaries under this support were individuals with average or low income levels. The project has enabled these individuals to establish their own businesses, employ others and indirectly contribute to the overall societal welfare.

120. The privatization component of the project involved retrenchment of redundant workers in the state owned enterprises. The impact of unemployment that resulted from the retrenchment program was mitigated by setting up Voluntary Retrenchment Plan where the project contributed to the employee's retirement (pension) plan and appropriate severance packages were paid.

121. In addition, more than 50percent of the project beneficiaries were women, providing opportunity for a group where cultural and social biases have economically marginalized women.

(b) Institutional Change/Strengthening

122. The project financed a number of capacity building initiatives that contributed to strengthening the capacity of the various implementing agencies of the project: (i) Ethiopian Privatization and Public Enterprises Agency in the valuation and management of privatization process (two staff were internationally certified on valuation and the staff of the agency were paired with international consultants to share experience and gain technical expertise) and in setting up the adequate infrastructure (equipment and network connections); (ii) The Faculty of Business in the Addis Ababa University has received substantial technical assistance (curriculum development, training and equipment) to establish and strengthen its Masters Programs; (iii) WTO Accession Directorate staff received a number of trainings and equipment to enable the directorate

play its key role in facilitating Ethiopia's accession to the WTO; (iv) institutional support was provided to the Addis Ababa and the regional Chambers of Commerce; and (iv) The Ministry of Industry and the team in the Ethiopia Competitiveness Facility have developed their skills in financial management and procurement processes in compliance with the Bank's standards, in addition to the administration of matching grants scheme and business plan competition.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

123. For the impact assessment for the Matching Grants Scheme by DFID[49], a beneficiary survey was carried out on 26 firms. The survey found that almost 80percent of surveyed ECF grantees had increased their total revenues relative to what they would have otherwise been. 17percent of the respondents felt it was too early to determine the impact but expect it to increase revenues in future, while just one (4percent) had used most of the ECF grant but reported no impact. The majority of firms described these changes as having a long-term impact in the form of better performing basic systems and better trained staff. A minority of firms, however, felt these changes were temporary and dependent upon longer or continuous engagement by the foreign experts they hired. In a few cases, firms felt experts had a disincentive to transfer their knowledge to local counterparts as it may shorten their stay in country. However, this was not widespread. Given that many of the grantees export all or most of their production, they reported similar results from ECF grants on their export-derived revenue. 65percent of respondents stated their export revenues had increased as a result of ECF, while 17 percent were not yet sure of the impact. Just one respondent (4percent) felt their export-derived revenues had not changed.

124. The results of the survey also showed that 39percent of the surveyed firms indicated they would have had fewer employees if they had not participated in ECF, primarily due to ECF helping them find new market opportunities that increased demand for their products. Eight responding firms attributed 1397 new jobs to ECF grants, equivalent to 37percent of their total current workforce. In contrast, 48percent of firms indicated their employment has not changed and one company (4percent) noted that it would have been higher had they not participated in ECF. Most of the firms giving these latter responses explained that ECF grants had increased productivity so substantially that they were producing significantly more per employee and thus were able to meet growing demand with the same number of employees. 71percent of the surveyed firms' employees were women, suggesting ECF's potential to support DFID gender objectives. This varied between the sectors. 49percent of employees were female among surveyed tanneries, rising to 63percent of shoe factories and 85percent of textile and garment companies. The surveyed agro-processing, chemicals and pharmaceuticals and horticulture firms all reported at least 70percent female employment but were excluded from the table given the small number of respondents. There were broader changes that were accelerating the

[49] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

shift to increased female engagement. In the tanneries sector, for instance, government requirements for greater value addition is creating new female-friendly positions in finishing, while men are increasingly being attracted to the construction and other higher-paying opportunities.

4. Assessment of Risk to Development Outcome

Rating: Negligible

125. The risk that the developments outcomes will not be sustainable is low for the following reasons: (i) the Government has continued with the privatization program, the privatized firms are operational with some of them recording profits and currently there is no threat of nationalization; (ii) beneficiaries of the matching grant scheme have improved the quality of their products and their productivity to stay internationally competitive; (iii) the survival rate of the startups is higher than originally targeted with most of them growing and expanding their businesses; and (iv) the support under SCHOOLCAP enabled to strengthen the graduate level curricula which still continues to be used to train new students graduates.

126. The project was able to establish capacity within the various implementing agencies to maintain the ongoing activities. One of the components under the project, Matching Grants scheme under BizPlan, will be financed by DFID to continue the bank financed initiatives and the privatization component will continue under Government financing for which the project had provided adequate technical assistance in the various stages of the privatization process. In addition, the Government's commitment to the implementation of the project provides assurance that the interventions supported would receive adequate attention and follow up from the Government.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Satisfactory

127. The Bank team had carried out adequate assessments and incorporated lessons learnt in designing the project. The project was designed with strong relevance to the Government's development agenda. A number of analytical works and consultations with the donor community were held to inform the design of the project.

128. However, some of the original indicators set were difficult to attribute to project interventions or were not measurable, and had to be dropped or revised during implementation. In addition, the implementation arrangement for component three should have been done through a private agency rather than through the government Ministry. The implementation of private sector focused interventions specially Matching Grants

Scheme and BiZPlan was delayed for almost two years with very low disbursements as the BMU, Enterprise Ethiopia, was not capable and flexible enough to adjust to the challenges and needs of the private sector. It was only after the implementation arrangement was changed to a semi-autonomous unit that the component started to show progress. This delay also contributed to the extension of the project for additional 18 months.

129. The preparation of the project did not identify specific beneficiaries and some of the mitigation measures for the risk identified were not adequate to address the risk such as the weak demand from the private sector.

(b) Quality of Supervision

Rating: Moderately Satisfactory

130. Records available show that the Bank had provided adequate support and carried out regular implementation support missions. Implementation support missions were carried out at least twice a year in recent years though full information and report on prior year supervision activities is not fully available**.** A Mid Term Review was conducted on the planned timeline and noted the progress of the project towards achieving its objectives and identified the need for additional financing to expand the project's interventions. Recent ISRs provide detailed updates on the progress of the project and the indicators.

131. The Bank was also responsive to project restructuring requests which kept the project relevant to the Government's strategy and the Bank's Country Assistance Strategy throughout the implementation period. Also, the project implementation arrangements were adjusted as necessary (for component three).

132. However, the Bank team should have advised the Government to restructure the project early on in 2008 to reallocate resources when the financial resources of the project were reduced to finance the Global Food Crisis Response Program in the country. This would have aligned the activities with the resources and streamlined the project activities to ensure timely completion of key activities. In addition, the results framework was not adjusted in a timely manner along with the change in the PDO to focus on exports which delayed tracking of results of the project interventions.

133. The Bank team should also have ensured compliance with fiduciary and legal requirements. The failure to comply with the requirement to submit independent audit report for the Voluntary Retrenchment program (VRP) contributed to the failure of the additional financing and the timely reallocation of the refunds from overpayments under the VRP which was identified later on after the audit was conducted. Changes in task team leaders contributed to the oversight on the audit compliance and the timely restructuring of the project. There were four task team leaders since the design to closure of the project.

(c) Justification of Rating for Overall Bank Performance

Rating: Moderately Satisfactory

134. The preparation of the project had included adequate consultations and analytical work and was done in the context of the Government's and the Bank's strategy. However, the project had some shortcomings in design especially in some of the indicators set to measure results, mitigation measures for identified risk and implementation arrangements.

135. Even though the project achieved its objective, timely restructuring of the project and ensuring fiduciary compliance on the special audit for the VRP would have enabled full utilization of resources and additional financing.

5.2 Borrower Performance

(a) Government Performance

Rating*: *Satisfactory

136. The Government had shown its commitment for the project through the active engagement of the steering committee, led by the State Minister for Ministry of Industry, and composed of key representatives of the private sector. In addition, the State Minister of Ministry of industry has been well involved in the daily oversight and management of the project.

137. The Ministry also assigned well experienced management team for the implementation of the project.

138. The Ministry of Finance and Economic Development (MoFED) has supported the project through availing counterpart funding for the project, time extensions and reallocation of funds.

139. Government officials had regularly availed themselves to Bank's implementation support team and adequate and timely support has been provided to resolve challenges and provide guidance towards the successful implementation of the project.

(b) Implementing Agency or Agencies Performance

Rating: Moderately Satisfactory

140. Ethiopia is a country where there is weak public sector capacity and staff attrition of civil servants and public officials is an endemic problem. Contrary to many projects implemented in the country[50], this project was led by a strong Ministry with seasoned

[50] The Bank's Country Portfolio Performance Report (CPPR) FY 12, dated September 2012, identified (i) high and rapid staff turnover, (ii) weak capacity at all levels of government and (iii) weak project management as some of the key constraints in the portfolio.

professionals and the project had a strong Coordination Unit, led by an experienced senior staff from beginning to end. The Government had shown strong commitment by engaging high level officials from the Ministry of Industry to provide support and guidance to the project. Even though the project experienced some staff turnover and delay in implementation (component three) initially, the Project Coordination Unit had successfully implemented the project activities with the exception of some interventions under component two.

141. Most of the Bank's legal requirements were complied with and financial and project progress reports were submitted timely and without major issues, with the exception of the special audit for the VRP which was not complied with until late in the project lifetime.

142. However, the performance across the implementing agencies was different especially in terms of procurement, financial management and timely completion of project activities. Some of the activities in the project (component two) were not fully implemented and the IDA credit was not fully utilized by project end. This resulted in some inefficiency in timely fund utilization.

143. The project faced challenges in procurement and contracts management on few consultancies and failed to comply with the fiduciary requirement to submit audit report for the VRP.

144. Even though the performance of the project coordination unit and most of the implementation agencies was very good, after considering some of the issues and non-compliances noted above, the performance is rated as moderately satisfactory.

(c) Justification of Rating for Overall Borrower Performance

Rating: Moderately satisfactory

145. Based on the satisfactory performance of the government and the moderately satisfactory rating for the performance of the implementing agencies, the overall rating for the borrower's performance is found to be moderately satisfactory.

6. Lessons Learned

146. One of the takeaway lessons from this project is to provide timely advice to the Government to restructure projects to keep its relevance to emerging priorities as well as for efficient utilization of resources within the project period.

147. To ensure compliance with Bank fiduciary requirements, continuous training and capacity building on financial management, procurement and contracts management should be provided to implementing agencies to ensure Bank's policies are adhered to. In addition, where a number of implementing agencies are involved, the Project

Coordination Unit should have a strong team in procurement, monitoring and evaluation and financial management.

148. Some of the key factors for the success of Component three, specially the Matching Grants Scheme and the Business Plan Competitions were: (1) the active participation of the Steering committee, which was led by a high level government official (State Minister for industry) and involved key stakeholders from the private sector, (2) active promotion of the program and close support to the private sector during implementation, and (3) flexibility of the project to adjust the program to situations (for instance, providing matching grants to bring international expertise in benchmarking studies that would benefit the whole sector based on integrated gap analysis, changing the implementation arrangement to meet the needs of the private sector, etc)

149. Projects should be designed with the operational flexibility to adapt when there is a difference between the assumptions made during design and the actual reality. For instance, for the PSD CB project, the initial low uptake of the matching grants scheme required change in approach in its implementation which enabled the project achieve its target under the Matching Grants Scheme. It is also necessary to ensure appropriate implementation arrangements are in place that would meet the needs of the private sector.

150. *Lessons for the Bank:* The Bank team should be proactive in addressing unforeseen events such as reallocation of project proceeds to emergency situations and ensuring compliance by project implementing units with fiduciary requirements.

7. Comments on Issues Raised by Borrower/Implementing Agencies

151. The Government prepared its own completion report for the project and the comments received from the Project Coordination Unit on the draft ICR, referring to the paragraphs in the report, are attached as Annex 6.

ANNEX 1
Project Costs and Financing

Ethiopia- Private Sector Capacity Building Project (P050272)

(a) Project Cost by Component (In US$ million equivalent)

Components	**Appraisal Estimate**	**Restructuring Estimate (RP July 3,2012)**	**Actual/ latest estimate**	**Percentage of appraisal**	**Percentage of restructuring estimate**
Component 1	9.87	6.14	6.33	64percent	103percent
Component 2	1.10	0.96	0.82	75percent	85percent
Component 3	8.00	9.19	8.60	108percent	94percent
Implementation	1.00	0.70	0.97	97percent	138percent
Physical Contingencies	0.00	0.00	0.00		
Price contingencies	1.49	0.00	0.00		
Counterpart funding	18.31	18.31	1.10*		
Unallocated	2.53	0.00	0.00		
Cancelled amount	-	7.00	7.00		
Total project Costs	**52.31**	**52.31**	**24.82**		

Note: The appraisal estimates are taken from Annex 5– Project Costs, of the PAD

* this amount indicates only the Government's cash contributed to project implementation and does not include in kind contribution (staff time, operating costs, etc.) and the contribution of the private sector as part of the MGS.

(b) Financing (In US$ million equivalent)

Source of Funds	**Type of Financing**	**Appraisal estimate**	**Actual/ Latest estimated**	**Percentage of Appraisal**
Borrower	Cash & in kind	18.31	1.10*	n.a.
International Development Association (IDA)	Credit	19.00	13.00	68percent
International Development Association (IDA)	Grant	5.00	3.00	60percent

ANNEX 2
Outputs by Component

Ethiopia- Private Sector Capacity Building Project (P050272)

The original project component has not been changed. The output of each component and subcomponents is summarized in the table below.

Component	Result indicators set at appraisal and/ or restructuring	Actual output
Component 1 – Accelerating the implementation of privatization program *Result* – Implementation of the privatization Action Plan completed	- 27percent by YR 3 and 55percent by YR 5 of PE portfolio scheduled for privatization in terms of total value of assets transferred from the public to the private sector	- A total of 77percent of the total value of the PE portfolio identified in the PAD have gone thru divestiture by project end. - In addition, some of the main activities carried out under the project are: ✓ Technical assistance provided for valuation of 6 SOEs by an international firm ✓ Training on business valuation provide for relevant staff ✓ Two staff have been internationally accredited as chartered surveyors ✓ The Management information system of the Authority has been upgraded ✓ Full and partial Environmental audits were conducted on selected SOEs ✓ The Voluntary Retrenchment program was implemented ✓ Post Privatization Unit of PPESA is strengthened and staff trained
Component 2 – Improving the business environment through implementation of competition policy and accession to WTO *Result* – Improved business environment and competition policy under effective implementation	i. By YR 2, issuance of interpretations/ implementation guidelines. ii. 4-6 cases in YR 1 and 6-10 cases in YR 3-5 handled by the competition commission iii. 4 Public information programs per year conducted as a measure of "competition advocacy" iv. 4 of trade related studies completed and disseminated	i. Revised competition proclamation ratified and under implementation. Implementation guidelines were partially prepared by project closing date. ii. Case hearing was not commenced by project closing date iii. WTO impact assessment studies were carried out, disseminated and discussed on transport, telecommunication and Financial Sectors - In addition, some of the main activities carried out under the project are: ✓ Four experts hired to provide technical assistance to the newly established Competition Authority

		✓ Equipment and supplies were purchased for setting up MIS for trade information (to support WTO accession) ✓ Office equipment and furniture were purchased to strengthen competition authority
Component 3 – Strengthening the international competitiveness of the private sector and the capacities of its representative organizations *Results for BIZCAP –* Increased firm's ability to compete and stronger institutions supporting PSD *Results for SCHOOLCAP –* Improved business management education	i. Supported exporters increase their exports at a rate 25percent higher than non-supported firms ii. Supported domestic market supplier increase in their sales at a rate 25percent higher than non-supported firms iii. Supported chambers and Associations increase in their memberships (No. of members) at a rate 25percent higher than do non-supported associations ***Revised outputs during restructuring*** iv. Number of Matching grants support given to private firms for export expansion (target :150) i. Academic upgrade of curriculum (i) Y1 revised program syllabus; updated annually; (ii) at least two new courses in Y1 and at least one new course annually ***Revised outputs during restructuring*** University (FBE) curriculum revised and adopted) ii. Resource upgrade for curriculum: 10percent per annum increase of Ethiopians in Faculty qualified to teach at	i. Indicator (i) was dropped during restructuring (July 3, 2012) due to difficulty to measure. ii. Indicator (ii) was dropped as the gov't priority shifted to supporting export oriented firms and resources were used to provide support to firms in priority export sectors iii. Financial support, about US$ 655,000 was provided for 25 privates sector associations for training, to set up information center, marketing and BDS etc. Information on no of members and their increase is not available iv. By project end, 165 grants have been awarded under the MGS which resulted in average increase of volume of exports by 29percent. The independent assessment done on this component shows that the gross annual turnover impact of the support is estimated at US$ 35.4 million. i. Revision of curricula for the MBA and MSC in accounting program have been completed and implemented. Undergraduate and postgraduate programs in Finance have been completed and revision of the curriculum for MSc in management science has been done. In addition, new courses on Bachelor of business, MSC in Management, MA in applied trade policy and MA in competition policy and regular economics were introduced. ii. Indicator (ii) and (iii) were dropped and there is no data available on the set target

	graduate level each year iii. National skills training; (i) at least 30 trained from at least 5 institutions each year; (ii) at least 20 percent increase in subscribers annually of the AAU journal iv. 25 students per year that completed each course on trade and competition policy ***Revised outputs during restructuring*** Number of graduates in regulatory economics and international trade programs in YR 3 & 4 (target: 20)	iii. 20 students in YR 3 and 21 students in YR 4 (total of 41) had graduated in international trade and regulatory economics and 4 PHD students were sponsored.
Result for BIZPLAN – Increased number of private firms with established relationship with private banks	i. At least 250 eligible entrepreneurs apply to BIZPLAN competition in first year, with at least 10percent increase of eligible applicants annually. ***Revised outputs during restructuring*** ii. Number of startups established through business plan competition each year (total target :40) iii. Proportion of startups established through business plan competition that survive after one year in operation (target: 70percent)	i. Even though the original indicator has been rephrased subsequently, data provide by the project indicate that: In round one of the BIZPLAN competition, 893 applications were received, out of which 526 were found eligible. In round two – 526 applications were received, out of which 20 were awarded as winners. In round three – 570 applications were received, out of which 482 were found eligible. In round four – 698 applications were received, out of which 10 were awarded as winners. ii. A total of 52 businesses have been established (excluding the final 10 winners as data is not yet available on how many of them established a business) iii. Out of the total 52, 40 have survived the first year which is a survival rate of 77percent.

ANNEX 3
Economic and Financial Analysis
Ethiopia- Private Sector Capacity Building Project (P050272)

Due to lack of complete data on the privatization component and the BizPlan competition, rigorous quantitative analysis was not feasible. For the matching grants scheme, the economic analysis done as part of impact assessment by DFID has been used. As the others involved technical assistance, a more qualitative approach is used.

Qualitative analysis and the analysis on efficient utilization of resources are provided in the main text of the report under section 3.3 of the ICR.

ANNEX 4
Bank Lending and Implementation Support/ Supervision Processes
Ethiopia- Private Sector Capacity Building Project (P050272)

(a) Task team Members

Names	**Title**	**Unit**	**Responsibility**
Lending			
Agata Pawlowska	Economist	AFTPS	Task Team Leader # 1
Phillip English	Senior Economist	WBIPR	
Rughvir (Shyam) Khemani	Advisor	CICDR	
Andrew Singer	PSD Specialist	Consultant	
Michael Opagi	Privatization Expert	Consultant	
Bruce Carrie	Privatization Expert	Consultant	
Michael Graglia	Project Officer	Global Business School network, IFC	
Joyita Mukherjee	Sr. Corporate Strategy Officer	Corporate Strategy group, SFRCI	
Menbere Taye Tesfa	PSD Specialist	AFTPS	
Andrea Vasquez –Sanchez	Sr. program Assistant	AFTPS	
Irene Chacon	Operations Analyst	AFTPS	
Shenaz Ahmed	Program Assistant	AFC06	
Yeshi Dagne	Program Assistant	AFTPS	
Dileep Wagle	Lead PSD Specialist	AFTPS	
Amadou Konare	Environmental Specialist	AFTS1	
Thomas Walton	Regional Safeguards Coordinator	AFTS1	
Mbuba Mbungu	Lead Procurement Specialist	AFTPC	
Samuel Haile Selassie	Procurement Specialist	AFC06	
Solange Aliali	Sr. Counsel	LEGAF	
Steven Gaginis	Lead Disbursement Specialist	LOAG2	
Eshetu Yimer	Sr. Financial Management Specialist	AFC06	
Ibrahima Dione	Consultant	Consultant	
Amadou Dem	Young Professional	AFTPS	
Nikolay Mandinga	Junior Professional Associate	AFTPS	
Quality Advisors			
Iradj Alikhani	CPC and Lead PSD Specialist	AFCSN	
Magdi Amin	Senor PSD Specialist	EASFP	Task Team Leader # 2
Richard Cambridge	Operations Advisor	AFTOS	
Luke Haggarty	Seniopr Economist	LCSFR	
Herminia Martinez	Consultant	AFTPS	
Edgar Saravia	Country Manager	ACCU7	
Gaiv Tata	Lead Financial Analyst	AFTPS	
Supervision/ ICR			

Irene F. Chacon		AFTFW	
Yeshareg Dagne	Program Assistant	AFTFE	
Andrea Vasquez-sanchez	Sr. program Assistant	AFTFW	
Jonathan David Pavluk	Senior Counsel	LEGAM	
Yasmin Tayyab	Sr. Social Dev't Specialist	AFTCS	
Asya Akhlaque	Senior Economist	AFTFE	Task Team Leader # 4
Menbere Taye Tesfa	Consultant	AFTFE	Task Team Leader # 3
Smita Kuriakose	Economist	AFTFE	
Evarist F. Baimu	Senior Counsel	LEGAM	
Siele Shiferaw Ketema	Program Assistant	MNSHD	
Almudena Mateos Marino	Young Professional	SEGEs	
Abiy Demissie Belay	Financial management Specialist	AFTME	
Tesfaye Ayele	Senior Procurement Specialist	AFTPE	
Senidu Fanuel	Private Sector Dev't Specialist	AFTFE	ICR Author

(b) Staff Time and Cost

Stage of project cycle	Staff time and Cost (Bank budget only)	
	No. of staff weeks	US$ Thousands (including travel and consultant costs)
Lending		
FY 04	22.98	178.79
FY 05	81.13	314.30
FY 06	0	70.37
FY 07	0	0.00
FY 08	0	0.00
Total	**104.11**	**563.46**
Supervision/ICR		
FY05	0	0.00
FY06	48.35	155.00
FY07	48.68	118.74
FY08	41.31	69.92
FY09	40.58	93.37
FY10	29.03	101.62
FY11	13.25	87.67
FY12	21.94	81.56
FY 13	16.68	55.75
Total	**259.82**	**763.63**

ANNEX 5
Beneficiary Survey results
Ethiopia- Private Sector Capacity Building Project (P050272)

(Excerpt from the independent impact assessment of component 3 commissioned by DFID)[51]

Window 1 Findings (*FIRMCAP)*

Grant Allocation by Sector and Activity

ECF has provided a total of 165 grants to 55 companies across six sectors. The majority of these were provided to the leather and leather products sector (15 tanneries and nine shoe factories) and the textile and garment sector (22 firms). A small number of other grants were also issued: five to agro-processing firms, two to chemical and pharmaceutical and two to horticultural companies.

The consultants found there were differing opinions on whether ECF supported specific sectors; senior World Bank staff believes it did not while ECF's staff say it does. The guidance posted on ECF's website to potential applicants states that "This program is open to export-ready private firms in the selected sectors of Leather and Leather Articles, Textile and Garment, Horticulture and Agro processing."3 These sectors were selected based on the Ministry of Industry's priorities. For instance, when the horticultural sector was managed by the Ministry of Trade two firms from the sector received grants, but once the Ministry of Agriculture assumed responsibility no further grants were issued. Given the challenge of convincing firms to apply, ECF's targeted promotion activities to the selected sectors reinforced this sectorial focus.

Table 2: Types of Activities Funded by ECF in Window 1

Type of Support	**Number of Firms**
Expert and specialist hiring for production, marketing and consultancy	48
Marketing support (market research, trade fair visits, trademark registration, packing & labelling design, sample distribution, subscription fee)	34
Training for management and workers	17
Integrated management system and implementation of production related systems	14
Advertising and promotion	13
Website design	9
Certification (International Organization for Standardization, Organic, WRAP, Good Manufacturing Practices)	9

[51] Ethiopia/ Evaluation of the impact and value for money of the Ethiopia Competitiveness Facility, UK Department for International Development, April 2012

Impact on Overall Revenues and Export-Derived Revenues

Almost 80percent of surveyed Window 1 grantees indicate that the ECF has increased their total revenues relative to what they have otherwise been. 17percent of the respondents felt it was too early to determine the impact but expect it to increase revenues in future, while just one (4percent) had used most of his ECF grant but reported no impact. The total estimated increase in revenues attributable to ECF by the 13 sample firms who were able to provide an estimate was over US$16 million, equivalent to more than US$1 million per company. The majority of firms described these changes as having a long-term impact as their basic systems were now performing better and their staff better trained. A minority of firms, however, felt these changes were temporary and dependent upon longer or continuous engagement by the foreign experts they hired. In a few cases, firms felt experts had a disincentive to transfer their knowledge to local counterparts as it may shorten their stay in country. However, this was not widespread.

Given that many of the phase 1 grantees export all or most of their production, they reported similar results from ECF grants on their export-derived revenue. 17percent of respondents were not yet sure of the impact, while 65percent stated their export revenues had increased as a result of ECF. Just one respondent (4percent) felt their export-derived revenues had not changed. The 13 firms who were able to estimate the impact of ECF on their export revenues believed it had increased them by over $11 million.

Impact on Employment

39percent of the surveyed firms indicated they would have had fewer employees if they had not participated in ECF, primarily due to ECF helping them find new market opportunities that increased demand for their products. Eight responding firms attributed 1397 new jobs to ECF grants, equivalent to 37percent of their total current workforce. In contrast, 48percent of firms indicated their employment has not changed and one company (4percent) that it would have been higher had they not participated in ECF. Most of the firms giving these latter responses response explained that ECF grants had increased productivity so substantially that they were producing significantly more per employee and thus were able to meet growing demand with the same number of employees.

71percent of the surveyed firms' employees were women, suggesting ECF's potential to support DFID gender objectives. This varied between the sectors. 49percent of employees were female among surveyed tanneries, rising to 63percent of shoe factories and 85percent of textile and garment companies. The surveyed agro-processing, chemicals and pharmaceuticals and horticulture firms all reported at least 70percent female employment but were excluded from the table given the small number of respondents. There are broader changes that are accelerating the shift to increased female engagement. In the tanneries sector, for instance, government requirements for greater value addition is creating new female friendly positions in finishing, while men are increasingly being attracted to the construction and other higher paying opportunities.

The impact assessment also showed that the gross discounted turnover impact of the intervention under the Bizcap (Matching Grants scheme) is about US$ 78.8 million, with a gross discounted GDP impact of about US$ 52.6 million. The cost benefit analysis resulted in a discounted total cost of about US$ 5.85 million which is translated into a positive Net Present Value (NPV) of US$ 29.5 million and a benefit cost ratio (BCR) of 6.04. The economic analysis on ECF alone exceeded the original analysis for the overall project which estimated NPV of US$ 22.6 million.

ANNEX 6
Summary of Borrower's ICR and Comments on Draft ICR
Ethiopia- Private Sector Capacity Building Project (P050272)

I. Summary of the ICR report of the Government of Ethiopia (May 2013)

1. Project Development Objectives

1.1 Original PDO and Key Indicators as approved

The key objective set for the project was to facilitate increased participation of the private sector in the economy by creating conditions for productivity improvement and competitiveness. This goal was expected to be achieved by:

a. assisting acceleration and divestiture process of public enterprises and facilitating increased private sector participation;
b. improving the business environment and increasing competition and contestability of the markets; and strengthening the linkages and integration of the Ethiopian economy into global markets; and
c. Support for technical and business management skills to improve productivity at firm level, through matching grant fund; tools for business schools to better train managers; and a business plan competition to catalyze innovation and entrepreneurship.

1.2 Revised PDO and Key Indicators and reasons, or justifications

1.2.1 Project Restructuring

The project was restructured under an agreement between the Bank and GoE dated 31 March 2008 for the following two reasons:

a. Reduction of the original budget of US$ 24 million allocated for the project to US$ 17 million equivalent due to the global food crisis, which required reallocation of the reduced resources for each project component; and
b. Review of the matching grant support scheme as well as other project activities, resulting in focus on exporting firms in an integrated manner and dropping the support for private firms that produced for the domestic market

During restructuring, the original PDO was maintained; however, the following revisions were made to outcome indicators.

a. Increased private investment to GDP ratio from 10.5 percent in 2003/04 to 15 percent in 2009 (including privatized firms) was dropped, because the result is an outcome of a number of factors in addition to the contribution of the project; and it was found to be rather hard to measure the differential impact of the project on GDP.
b. 4,500 new jobs created in the private sector by project end was revised, linking result to firms benefiting from matching grants and not privatization, which is more likely

to result in labour restructuring or redundancy than job creation. No quantitative target for increased jobs was set under restructuring though.

c. Value added per worker increased by 20 percent in participating firms by project end was continued during project restructuring. However, it was dropped under project extension as it was found to be hard to measure.

Results Indicators

a. ***Component One***: No change was made throughout the project period
b. ***Component Two***: Continued with some revision of annual targets related to number of cases handled by the Competition Commission, based on implementation feedback, and further changes upon extension of the date of project closure.

c. ***Component Three*:**

Results for BIZCAP

(i) Supported domestic market suppliers increase their sales at a rate 25percent higher than non-supported firms: This indicator was dropped during restructuring as support for domestic suppliers by the project was discontinued
(ii) Supported chambers and associations increase their memberships (number of members) at a rate 25 percent higher than do non-supported associations: This result indicator was dropped during project extension for no clear reason

Results for SCHOOLCAP

National skills training: (i) At least 30 Ethiopians trained from at least five institutions every year; (ii) at least 20percent increase in subscribers annually for the AAU Journal. The result indicator regarding national skills training was dropped due to the sharp increase in enrolment of teachers of business education on post-graduate studies at FBE, coupled with greater focus on developing and implementing two new MA programme rather than the shorter terms courses envisaged in the PAD.

Result for BIZPLAN

At least 250 eligible entrepreneurs apply to BIZPLAN competition in first year, with at least 10 percent increase in number of eligible applicants annually: This result indicator was changed to survival rate as opposed to number of applicants

1.2.2 Extension of Project Closing Date

The project closing date of 31 July 2012 was extended to 31 December 2012 under an agreement signed on 3 July 2012.

The PDO was revised under this agreement and stated as follows: To facilitate increased participation of the private sector in the economy by creating conditions for improving productivity and competitiveness.

1.3 Main beneficiaries

The main beneficiaries of the project have been the following:

a. The Privatization and Public Enterprises Supervising Agency implementing the Privatization Action Plan of the government in terms of institutional capacity building and workers of privatized public enterprises, who have been retrenched
b. The former Trade Practice Investigation Commission and its successor the Trade Practice and Consumers Protection Authority, responsible for the implementation of competition policy, as well as the WTO Directorate under the Ministry of Trade, in charge of the WTO accession programme of the GoE in terms of institutional capacity building and analytical studies
c. Private sector firms and chambers of commerce and sectoral associations eligible for grant support, business start-ups, and the former Faculty of Business and Economics and its successor, College of Business and Economics of Addis Ababa University

1.4 Project Components

To support the implementation of the agreed policy measures under PRSC-II, as well as to build the capacity of the private sector, the PSD CBP consisted the following three components:

a. Component One: Accelerating the Implementation of Privatization Program
b. Component Two: Improving the Business Environment through Implementation of Competition Policy and Accession to WTO
c. Component Three: Strengthening the International Competitiveness of the Private Sector and the capacities of its Representative Organizations

1.5 Original policy areas supported by the project

a. Privatization of public enterprises in order to expand the share of the private sector in the national economy
b. Implementation of competition policy to ensure that there is a level playing field for the private sector
c. Advance the integration of the Ethiopian economy into the global trading system through WTO accession
d. Strengthening the international competitiveness of the private sector

1.6 Other significant changes, including reasons: design, financing (reallocation), and implementation arrangements

1.6.1 Design

The design changes are mainly related to Component Three: Strengthening the international competitiveness of the private sector and the capacities of its representative organizations.

1.6.1.1 Matching grants

a. Matching grant support to private firms that manufacture for domestic market was dropped; and the support focused exclusively on exporting firms;

b. The national staffing complement of the Ethiopian Competitiveness Facility was increased in number as well as in types of expertise to provide knowledge-based handholding support. Further, the planned input of expatriate staff for ECF implementation was reduced due to the project budget cuts resulting from the global food crisis;
c. The support for capacity building of private firms was based on an integrated approach such that a more comprehensive gap analysis was conducted with respect to production management, quality management, marketing, efficiency, etc., and the appropriateness of the solutions proposed to fill the gaps was checked during appraisal of applications for support, thus correcting the earlier tendency of firms to request support for stand-alone activities, such as attendance of trade fairs;

1.6.1.2 Management education at the Faculty of Business & Economics

Due to Government decision to expand business education in the country, FBE increased its intake of MBA students who would serve as teachers upon graduation.
Consequently, the original plan to provide national skills training to 30 persons from at least five institutions every year under the project was dropped. More emphasis was put on developing and implementing new MA programmes on applied trade policy analysis and competition policy.

1.6.1.3 Support for Diaspora network and ITC market information

Under project structuring of April 2008, it was planned to support the development of Ethiopian Diaspora network and dissemination of market information to be obtained from International Trade Centre. However, due to reduction of project finance by US$7 million, both areas of support were dropped.

1.6.2 Financing

The initial resource allocated for project implementation was US$ 24 million of which US$ 19 million was an IDA credit and US$ 5 million a grant. However, the initial project budget was restructured and reduced down to US$ 17 million in accordance with the Development Financing Agreement of April 1, 2008 as mentioned hereinabove. In addition, the Government of Ethiopia has also contributed as counterpart fund Birr 15.6 million roughly around US$ 1.5 million.

2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES

2.1 Project preparation, design and quality at entry

Key factors during the preparation stage or issues related to quality at entry that affected implementation and outcomes are treated herein below.

2.1.1 Background analysis

The background analysis regarding (a) privatization; (b) the business environment, and (c) the international competitiveness of the private sector and the capacities of its representative organizations was done in the respective study commissioned by the former Ministry of Trade & Industry, employing the PHRD grant earmarked for project preparation. It also benefited from various studies conducted by the Bank such as Investment Climate Assessment as well as documents availed by the Government.

It covered the major issues involved, including public sector dominance in the economy, weak integration of the Ethiopian economy into the regional as well as the international economy, and low level of skills in private firms and weak institutional support to the private sector. It identified gaps to be filled to advance the PSD agenda. Overall, it was sound and solid and facilitated the implementation of the project.

2.1.2 Assessment of the project design

2.1.2.1 Project objective

The key objective of the project was to facilitate increased participation of the private sector in the Ethiopian economy by creating conditions for improving its productivity and competitiveness. This was aligned with the Country Assistance Strategy of the World Bank as well as the GoE's commitment to encourage PSD as an engine of growth for sustainable development and poverty reduction as outlined in PASDEP.

2.1.2.2 Project components

Design aspects

The main aspects of design of each component of the project are given herein below:

a. Component One: Accelerating privatization

Institutional capacity building; review of modes of divestiture of public enterprises followed by revised categorization of the enterprises by type of divestiture; environmental audits of public enterprises; and the redundancy scheme for workers of public enterprises including its costing. The World Bank's experience in privatization of public enterprises in other countries was also reflected in the design.

It must be noted that the complexity of the design of the voluntary redundancy scheme was underestimated during project appraisal. As a result, its design had to be conducted after project effectiveness. This delayed the implementation of the scheme under the project. Consequently, the GoE had to cover redundancy payments out of its own resources in order to facilitate the privatization programme.

b. Component Two: Improving the business environment

Review of the competition policy, reflected in the Trade Practice Proclamation and determination of areas of support for (a) implementation of competition policy and (b) WTO accession, including preparation of the Roadmap for WTO accession. The design consultants had previous experience in review and design of competition policy and also in providing advisory services to other jurisdictions on WTO accession.

c. Component Three: Improving international competitiveness of the private sector

Design of matching grant scheme for private firms, capacity building plans for private sector support institutions, consisting of chambers of commerce and sectoral associations as well as professional associations, and business plan competition based on previous World Bank experience.

The three project components were designed by qualified international experts, with previous experience in their respective fields of assignment. The design reports were validated at consultation workshops in the presence of stakeholders, including representatives of the private sector, chambers of commerce, academia, financial institutions, implementing agencies, and development partners; and feedback was provided for improvement of project design. This ensured that the design was based on tested and internationally acceptable norms and conducted in a transparent manner. It had the support of public as well as private sector stakeholders, thus paving the way for smooth implementation.

Design novelties

The project brought the following novelties to the Ethiopian context of private sector development:

a. Design of a voluntary redundancy scheme based on international best practice and WB tool kits;
b. Need for incorporation of findings of environmental audits in the privatization process;
c. Need for alignment of the competition law with international best practice and revision thereof;
d. Provision of technical assistance to private sector firms using matching grants
e. Support of start-up businesses through business plan competition and linkage with banks by providing cash collateral for loans; and
f. Design of new courses on (i) applied trade policy and (ii) competition policy and regulatory economics

2.1.2.3 Organizational arrangement

The principle that guided the organizational and implementation arrangement was mainstreaming the operational responsibility of the project to those institutions involved in implementing the GoE's policy agenda. In other words, project implementation was decentralized. As such the institutional and implementation arrangement was rather complex, involving the following 9 entities:

a. The former Ministry of Trade & Industry (MoTI) later replaced by the Ministry of Industry (MoI) as the main executing agency, delegated by the Ministry of Finance & Economic Development that signed the financing agreement with the World Bank. Under it were;
b. Public-Private Steering Committee, for strategic direction, budget approval and progress review under the Ministry
c. Privatization and Public Enterprises Supervising Agency for implementation of Component One: Accelerating Privatization
d. Competition Secretariat for implementation of the support for implementation of competition policy, a sub-component of Component Two: Improving the business environment
e. WTO Department for implementation of the support for WTO accession, a second sub-component of Component Two
f. Capacity Building Sub-Committee, the members of which were drawn from the public and private sector, for the implementation of Component Three: Improving international competitiveness of the private sector
g. Business Management Unit under the former Enterprise Ethiopia to implement the matching grant scheme and business plan competition under Component Three
h. Faculty of Business & Economics of Addis Ababa to implement SCHOOLCAP under Component Three
i. Project Coordination Unit for overall fiduciary responsibilities, including financial audits, and coordination of the activities of the various implementing agencies

It was assumed that the PCU would have a lean staff of four required to coordinate the above nine entities and monitor the overall performance of the project with reporting responsibilities to the GOE as well as the World Bank.

2.1.3 Adequacy of government's commitment

The government had shown adequate commitment to the project by involving relevant stakeholders in the consultations during project design and establishing private-public steering committee (PPSC) for providing guidance and oversight of project implementation. Government ministers served as chairs as well as members of the PPSC and the Capacity Building Sub-Committee.

2.1.4 Assessment of Risks

5 major risks were identified during project design and the risks were accordingly rated and mitigation measures were recommended. The overall risk rating was substantial. The mitigation measures proposed were appropriate and implemented. The risk ratings related to (a) weak supply response from the private sector; (b) GoE's commitment to the Privatization Program; (c) and capacity of MoTI to implement the reform program and coordination with other ministries were mitigated by and large using measures similar to those proposed at project design.

3 Implementation

3.1 Factors that contributed to successful implementation

1. Commitment of the Government, including ministers of the former MoTI and MoI, and officials of the implementing agencies to the realization of the objectives of the project
2. Participation of the private sector, particularly in the oversight of the implementation of matching grants and business plan competition
3. Improvement of the professional mix of the staff of the Ethiopian Competitiveness Facility by recruiting experts in project analysis and implementation, production management, marketing, institutional development, and a well-rounded manager for ECF
4. Selfless professional input of the teaching staff of the Economics Department of the Faculty of Business & Economics (FBE) in the curricula design of 2 new MA programmes, namely, Applied Trade Policy as well as Competition Policy and Regulatory Economics
5. A project coordination unit devoted to the successful implementation of the project in accordance with the financing agreement and operations manual and managed by a professional with considerable experience in project and industrial management, coupled with stability of core staff of the PCU, particularly the Coordinator, who was involved as a consultant to MoTI during project preparation and has managed the project since project effectiveness
6. Restructuring of the matching grant scheme with focus on export development and support of interventions, based on integrated gap-analysis approach as opposed to the initial approach of funding stand-alone activities
7. Close working relations of the PCU with the Task Team of the Bank as well as executing agencies.

3.2 Factors that gave rise to problems

1. Frequent turnover of staff of implementing agencies, including ministers, directors, and other so forth; particularly, those who were directly or indirectly engaged in the implementation of the respective project components, requiring orientation and/or training on Bank procedures, etc., to mitigate the problem.

2. Long delay to restructure the project, particularly the matching grant scheme with focus on export development. As a result, the support to the private sector was suspended until the signing of the amended financing agreement. Close follow-up with Bank Task Team as well as MoTI was necessary to minimize the delay. A better organized Ethiopian Competitiveness Facility was set up to provide improved hands-on support to beneficiaries
3. Overlap of donor support to beneficiaries

(a) The Privatization& Public Enterprises Supervising Agency had secured a grant from the African Development Bank for transaction advisory services and capacity building. PPESA preferred to exhaust the DB grant before utilizing the WB credit.

(b) USAID and GIZ were funding capacity building activities of private sector firms. Private firms were cherry pecking and went for the support of other donors as the terms and conditions for implementation were less rigorous.

4. Capacity limitations of private sector firms to (a) prepare business plans for support, and (b) implement activities approved and specified in letters of agreement on time. As a result, hand-holding support had to be provided by experts of ECF to prepare business plans and expedite implementation thereof. This had slowed the initial uptake of project support and disbursement. However, the beneficiaries turned to the project as soon as the programmes of the other donors were closed.

3.3 Monitoring and Evaluation Design, Implementation and Utilization

3.3.1 M & E Design

3.3.1.1 PDO indicators

Three outcome indicators were identified and targets by project end were set to monitor the achievement of the project development objective (PDO) to create improved conditions for private sector investment and increased productivity. Each one of them had their particular drawbacks as follows:

a. Increased private investment to GDP ratio from 10.5 percent in 2003/04 to 15 percent in 2009 (including privatized firms)
   - The expected increase would not be an exclusive outcome of the project. There are many other contributing factors for the increase. As such, it was found difficult to measure the marginal effect of the project.
   - Private investment to GDP ratio has not been readily available or published on an annual basis at the Ministry of Finance & Economic Development as was anticipated in M & E design.

b. 4,500 new jobs created in the private sector by project end
   - It was not clear from the outset whether this indicator was related to jobs created in the whole private sector, or by private firms directly benefiting from the project. The new owners of privatized firms were more likely to lay off redundant workers than to hire new ones.
   - The project was intended to finance voluntary redundancy of workers of public enterprises in order to facilitate privatization.

c. Value added per worker increased by 20 percent in participating firms by project end
   - Such data was not readily available in private firms as it would require special skill to measure it ; and
   - Generally, there was resistance to provide such information to external bodies.

3.3.1.2 Intermediate results and their indicators

The intermediate results by project component as well as their indicators were adequately identified and helpful to monitor the progress of the project.

3.3.1.3 M&E Implementation

The data related to the indicators for intermediate results of each one of the three components was collected by the Project Coordination Unit (PCU) from the respective executing agencies, using the collection methods or instruments stipulated in the project appraisal document (PAD).

3.3.2 Revision of M & E Indicators

The M & E indicators were revised twice during the life of the project. Accordingly, data was collected in alignment with the restructured M & E and results framework.

3.3.3 M&E Utilization

Extent to which appropriate data was evaluated and used to inform decision making and resource allocation - The data collected in line with the M & E framework by project component was analyzed and evaluated against the targets set. In case of negative variance, where performance fell short of target, remedial measures were taken in consultation with officials of implementing agencies to expedite the activities funded by the project and achieve or exceed the targets in the results framework and thereby attain the project development objective as well. Examples of measures taken, among others, include, close follow-up of:

a. the progress of the tenders for privatization of public enterprises until final contract and hand-over to private owners
b. the establishment of the Trade Practice Investigation Commission and its secretariat; implementation of competition policy; and building the capacity of the secretariat and its successor, the Competition Authority
c. analytical studies related to impact assessment of WTO accession on the transport, telecommunications and financial services sub-sectors
d. implementation of matching grants for private sector firms, chambers of commerce and sectoral associations, and business plan competitions
e. curricula design of courses for the Faculty of Business & Economic and the implementation thereof, involving increased reallocation of resources for the 2 new MA programmes established by the project

3.4 Safeguard and Fiduciary Compliance

3.4.1 Financial management

An appropriate financial management system was maintained and project financial statements were prepared in accordance with international accounting standards. Unqualified audited financial statements were submitted to IDA prior to the due date of 6 months after the close each fiscal year. Quarterly IFRs were also presented to IDA on time.

A special audit on voluntary redundancy payments (VRP) has detected overpayment by PPESA to the Public Servants Social Security Agency (PSSSA) in the amount of US$1.6 million dollars. This has been duly refunded to the Special Designated Account of the project. At this juncture, it is worth noting that, prior to the availability of the project funds, the PSSSA had paid over US$10 million out of its own funds to redundant workers in order to facilitate the privatization of public enterprises.

3.4.2 Procurement

No issues of conflict of interest or fraud arose during the whole project period. The project faced frequent turnover of procurement staff and members of tender committees of executing agencies, which was quite a challenge to the PCU. The problem was mitigated through training and orientation on procurement guidelines of the WB and hands-on support.

All contracts for procurement of goods and services were executed smoothly, except in the following two cases:

(i) A contractual dispute arose between PPESA and an individual consultant in connection with the quality of the deliverable on asset valuation, which was unsatisfactory to PPESA. The dispute was amicably resolved by the contracting parties themselves, based on the professional advice of the PCU.
(ii) A contract between the Ministry of Industry and Economic Competitiveness Group, Inc., for consultancy services on the preparation of National Strategy on Industrial Clusters Development was terminated due to the failure of the consultant to submit the final report in accordance with the contract. The issue was discussed with the procurement unit of the Bank. No-objection was secured from the Bank to terminate the contract. The issue was closed accordingly.

3.4.3 Disbursement

All disbursement issues were discussed with the finance unit of the Country Office. There are no outstanding issues. The PCU is prepared to refund the Bank any unutilized funds in the Designated Account.

3.4.4 Environmental assessment

Full environmental audits were conducted on 24 public enterprises and partial audits on 72 public enterprises as envisaged in the project design. Further, environmental management plan was prepared for 96 enterprises. Therefore, there are no outstanding environmental issues.

3.5 Post-completion Operation

The PCU is retained by the Government after the closing date of the project date in order to ensure that financial commitments for activities executed prior to the closing date are fulfilled, and financial statements and reports are properly prepared for final external audits.

Further, the PCU is mandated to coordinate Phase 2 of the Ethiopian Competitiveness Facility, which is a four-year programme, in accordance with the Memorandum of Understanding signed between DFID and the Ministry of Finance & Economic Development.

The GoE is committed to the preparation of the Competitiveness & Job Creation Project for post-completion engagement with the World Bank in line with the Country Partnership Strategy. The Ministry of Industry has assigned the coordinator of the PSD CB project as one of the two focal persons for technical issues in its dialogue with the Bank.

4. Assessment of Outcomes

4.1 Achievement of overall PDO

The PDO to facilitate increased participation of the private sector in the economy by creating conditions for productivity improvement and competitiveness remains relevant as it is consistent with (a) the country's current development priorities stipulated in the Growth & Transformation Plan (GTP), with emphasis on development of SMES; job creation; measures to enhance capacity utilization of manufacturing industries and new investments; improved and simplified trade regulations and procedures; efficient and competitive trade sector; and accession into the WTO; and (b) with the current Bank Country Partnership Strategy.

4.1.1 PDO level results indicators

4.1.1.1 PDO Indicator 1

An average target of at least 10percent of private sector jobs created in participating firms was set by project end, taking into account baseline of 1,917 jobs at project commencement in 2005. The total number of new jobs created in private sector firms supported by ECF under the matching grant scheme reached 5,719 by project end, thus exceeding the target.

4.1.1.2 PDO Indicator 2: Percentage of value of assets

The target percentage of total value of public enterprise assets transferred to private sector management and ownership was 27percent by year 3 and 55percent by year 5. By project end, the actual percentage achieved reached 77percent, thus resulting in enhanced participation of private sector in the economy.

4.1.1.3 PDO Indicator 3: Increase in export

Both targets, namely, (a) at least 25 percent increase in the value of exports in participating firms and targeted sectors, and (b) and/ or at least 10 firms starting to export as a result of the support were exceeded. The average increase in the value of exports reached 29percent and 20 new firms started exporting by project end. This indicates that project has assisted private sector firms to be more competitive by building their capacity in management, technical and production capacity.

4.1.1.4 PDO indicator 4: Percentage of female jobs

Total number of employees of beneficiary firms participating in the matching grants scheme has reached 20,533. 60percent of these employees are female compared to the target of 50percent. This indicates that the project is gender sensitive and has assisted women to improve their economic livelihood.

4.1.2 Achievement of Intermediate Results under Each Project Component

4.1.2.1 Component One: Assisting acceleration and divestiture process of public enterprises and facilitating increased private sector participation

The target of 10 public enterprises sold to the private sector 10 per annum in the 2004/05 – 2008/09 period has been achieved with a divestiture of almost all the 55 enterprises listed in the PAD. The actual number of enterprises transferred to the private sector, including individual farms within agricultural enterprises, has reached 57, exceeding the target of 40.

In addition, 79 enterprises in sectors, such as hotels, food and beverages, chemicals, construction, textiles, farms, metals, and trading, that were not listed the PAD have been divested.

This means that the domination of public enterprises in manufacturing and farm outputs has been dramatically reduced across sectors, such as ago-industry, food processing, leather and leather products, textiles and apparel, construction, and metals as a result of privatization, thus enhancing the participation of the private sector.

4.1.2.2 Component Two: Improving the business environment and increasing competition

Intermediate Indicator 1: Revised competition policy

A revised competition law has been enacted with framework for fair trade practices and anti-trust separate from anti-dumping, with provisions on mergers, collusion, market dominance, etc.

Intermediate Indicator 2: Independent competition authority and secretariat

A strong competition authority has been established, with the support of the project, replacing the former Trade Practice & Investigation Commission, albeit towards the end of the project. The authority has recruited most of the critical staff required for operation and champion the implementation of competition policy to enhance the contestability of the market in the Ethiopian economy.

Intermediate Indicators 3: Number of studies

The project has supported three studies on the impact of WTO accession on telecommunications, finance, and transport sectors. These studies on Ethiopia WTO accessions were disseminated to, and discussed by stakeholders as well as the WTO taskforce and National Steering Committee. Furthermore, 7 similar studies were conducted supported by other donors, in such areas as intellectual property rights, health services, investment, technical barriers to trade, sanitary & phyto-sanitary services, agriculture, and trade remedies.

The GoE is committed to the implementation of competition policy and accession to WTO as at the end of the GTP period, i.e. 2014/15.

4.1.2.3 Component Three: Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations

Intermediate Indicator 1: Number of grants
The total number of matching grants provided by ECF to private firms, chambers of commerce and sector associations as well as start-up businesses was 165 compared to the target of 150.

Intermediate Indicator 2: Number of startups
The number of startups established through business plan competition each year was 20 each in round 1 and 2, which was exactly in line with the target. The project managed to conduct four business plan competitions and warded 30 startups in round three and 10 in round four. Thus, the total number of startups supported by the project is 70 against the target of 40.

Intermediate Indicator 3: Survival rate of startups
The proportion of startups established through business plan competition that survive after one year in operation has exceeded the target of 70percent. This indicates the robustness of the appraisal of the business plans of the competitors by the project.

Intermediate Indicators 4: Number of university (FBE) curricula
The MBA and MSc in accounting and finance programs were reviewed and revised; while 5 new courses were designed, namely: Bachelor of Business in accounting; MSc in finance; MSc in management; MA in applied trade Policy; and MA in competition policy and regulatory economics.

Intermediate Indicator 5: Number of graduates
The number of graduates in applied trade policy and competition policy and regulatory economics in year 3 was 20 and 21 in year 4, thus exceeding the overall target of 40.

5. Bank and Borrower Performance

5.1 Bank Performance

5.1.1 Lending

The PSD CBP was designed fairly quickly in order to assist the Government of Ethiopia to embark on a comprehensive reform program and to implement the first generation of PSD reforms. The Bank's CAS was based on Ethiopia's SDPRP document. The PSDCBP as indicated in the CAS was consistent with the overall GoE strategy and its efforts to remove the key obstacles to PSD and support a faster private sector-led economic growth. The Bank was eager to support the evolving institutional structure of Ethiopia. In this context a series of support packages like PRSC-II with substantial PSD content in the areas of privatization, competition policy and WTO accession were developed to support policy reforms of the Ethiopian Government. The PSD CB Project provided financial support and technical assistance necessary to enable the Government to implement key PSD policy reforms agreed under the framework of PRSC. The PSD CBP complemented the ongoing efforts led by the Bank and other donors like EU, ADB, DFID, USAID and UNDP supported PSD and focused on addressing the remaining constraints.

The Banks performance involvement and assistance in addressing and responding to the Government's needs by getting involved in addressing and financing important reform gaps of the PSD CB Project is rated satisfactory.

5.1.2 Supervision

The operational responsibilities were endorsed to different institutions/agencies where the PCU had no hierarchal authority them. This meant that the project needed persistent communication and close follow- up of events by the PCU than were anticipated. In addition, the high staff turnover of the Country Office had also affected the operation. Apart from frequent reshuffles FMS and Procurement Specialists, 4 officials had presided as TTL over the operating life time of the project which eventually resulted in different approaches to project supervision. All the same, overall, the Bank's supervision Mission has carried out its duties as planned and the Bank's performance with this respect is ranked <u>satisfactory.</u>

5.2 Borrower Performance

5.2.1 Preparation

The Government of Ethiopia had recognized that increased level of private participation was crucial for sustained growth. The PSD CBP was formulated as a project to accommodate the Government's need for assistance to speed up private sector reform process. The Government was committed to accelerate the participation of the private sector in manufacturing activities, speed up the privatization program of commercial PEs, and introduce policy reform that would eliminate entry and exit barriers of private investment, implement necessary reforms that would nurture competitive business practice and other related issues. The Ministry of Finance and Economic Development has done fundamental negotiations and agreements in due time for the release of the credit and grant and has made <u>satisfactory</u> preparation for the project to kick off. The Ministry of Trade and Industry, the main executing agency of the project on the borrower's side has also performed a <u>satisfactory</u> job.

5.2.2 Implementing Agencies

During initial operation start-up, the implementing agencies had to put the necessary infrastructure and staff in place and familiarize themselves with World Bank disbursement and procurement guidelines. However, with the guidance and consultations from PCU and the Country Office, the operations of each project component, except Component One, were gradually taking shape. The implementation of Component One entrusted to PPESA was delayed for over 3 years since project start-up date until the partner donor fund financing of ADB was utilized. Overall, all of the implementing agencies have done a good job and their performance is rated satisfactory.

6. Lessons Learned

The key lessons learned are the following:

1. Implementation of an integrated package of interventions is vital to address the interrelated constraints of the private sector and create an environment for a sustainable PSD.
2. Close collaboration with key stakeholders to ensure ownership and continuity, particularly, with implementing agencies as was the case during the design phase
3. Strong professional leadership and capacity is required to direct, organize and control various project programs that are to be implemented by different institutions under different management with no formal organic link to one another.

7. Sustainability

The overall project sustainability is rated satisfactory in view of the commitment of the GoE (a) to improve the business climate to deepen the participation of the private sector as indicated in the GTP and espoused in the Country Partnership Strategy, and (b) the request of MOFED to proceed with the preparation of the "Competitiveness and Job Creation Project".

Especially, the sustainability of ECF support to bench-marking activities related to product quality, processing capacity, and marketing is rated highly satisfactory.

II. COMMENTS RECEIVED ON DRAFT ICR REPORT

Reference	Comment	Bank team's response
Page 16, Para 15: Main Beneficiaries	The following should be included among the beneficiaries: (a) chambers of commerce and sector associations, (b) teaching staff at Addis Ababa University, and (c) implementing agencies supported by the project in terms of institutional capacity building	Main beneficiaries in the report are defined as the primary target group to benefit from the achievement of PDO and does include beneficiaries as a result of the process of implementation
Page 22, Para 40: Risk and Risk Mitigation	- The conclusion that the risk mitigation measure proposed was either not effective or properly implemented assumes that a substantially greater number of	- This still reinforces the idea that the risk identified was not appropriate. If the target was to reach firms only in Addis Ababa, then the

	firms from rural areas could have been supported. However, the fact of the matter is that the target beneficiaries, of the matching grant scheme, i.e., private exporting firms, are geographically located in Addis Ababa and its surroundings. Most eligible *regional manufacturing firms engaged in exports*, other than public enterprises, have also been supported. - Further, 19 regional chambers of commerce and sector associations were supported by the project. - The 12 floriculture firms supported by the project prior to the first restructuring were outside of Addis Ababa.	risk was not relevant at all. However, if firms based in the regions were supported, the pervious comment would not be valid. The report was trying to show that the proportion of firms from the region was much lower than the number of firms in Addis Ababa. - Support provided to the regional chambers and floricultures is well noted.
Page 22, Para 52, Line 3	The fact is that the final uptake of the demand-driven activities was high. Therefore, the remark that it was low should only refer to the initial stage, which is related to teething problems, so to say	The language has been revised to clarify the issue.
Page 22, Para 44	The foreign exchange gain of close to US$ 1 million was a result of the appreciation of the SDR against the US dollar as the funds in the financing agreement were denominated in the SDR. It is also true that the devaluation of the ETB has meant that more local currency was made available to cover local costs.	Well noted.
Page 23, Para 49	The reason for the failure of the Additional Financing Agreement is not properly articulated. Both GoE and the WB had reached agreement	The section has been revised to clarify the issue.

	that the Project would submit the special VRP audit in accordance with the ToR proposed by the Bank. The negotiation failed due to disagreement on the proposal of the Bank to include additional clauses related to safeguards as well as fiduciary issues, which the GoE side viewed as a renegotiation of the financing agreement of an existing project.	
Page 23, Para 51, Line 5	Please delete *"either difficult to measure"*.	Detail explanation on the changes in the indicators was not available and it is hard to say in certain terms that the change was only due to irrelevance of the indicators.
Page 23, Para 47, Footnote 16	The footnote related to contracts management is too harsh on the executing agencies, i.e. on PPESA and MoI. It is not helpful the way it has been stated in view of the fact that the root cause of the problem is the failure of the two consultants to deliver their reports in line with their respective contracts. MoI's consultant never disputed that it had failed to comply with contractual obligations.	Language has been revised
Page 24, Para 57 1.	Some of the result indicators which were later on changed or dropped are available, for instance, the original result indicators related to Component 2 (number of cases, public information programs, etc).	Well noted.
Page 26, Para 65, Line 6	The amount DFID has committed is ***GBP 4 million*** and not ***Euro 4 million.***	The report has been corrected.

Page 28, Para 77, Footnote 30	Please include insert *"as well as the implementation of competition policy" after "Privatization program"* in line 4.	The report has been amended.
Page 32, Para 92	The project had supported the Competition Secretariat as well as the Trade Practice Investigation Commission established under the previous competition law. The Commission was replaced by the current Competition Authority (upon amendment of the law), which in turn has been supported by the project in terms of capacity building.	Well noted.
Page 38, Para 121	Institutional support to the Addis Ababa Chamber of Commerce, regional chambers of commerce and sector associations was an important intervention of the project. This must be mentioned in this paragraph.	Well noted.
Page 41, Para 131	See the comment in 5 above regarding the reason for the failure of the Additional Financing negotiation	Well noted.
Page 52, Para 140	The project has submitted to The WB two VRP audits conducted by external auditors. The way it has been stated in the paragraph can be misleading.	The report has been amended.
Page 45: Annex 2	Outputs by component are not comprehensive.	The section has been updated based on the Gov't ICR.

ANNEX 7
List of Supporting Documents
Ethiopia- Private Sector Capacity Building Project (P050272)

1. Project Appraisal Document
2. Development Financing Agreement dated 10 March 2010
3. Agreement providing for the amendment and restatement of the development Financing agreement, dated 1 April 2008Development
4. Project progress reports
5. Ethiopia/ Evaluation of the impact of and value for Money of the Ethiopia Competitiveness facility, UK DFID, Coffey international, April 2012
6. Country Partnership Paper (2012/13-2015/16),August 29, 2012
7. Country Portfolio Performance Review report, September 2012
8. Aide memoire and Implementation Support reports
9. Federal Democratic Republic of Ethiopia, Growth and Transformation Plan (2010/11 – 2014/15)
10. Emergency Food Crisis Response Program of the Federal Democratic Republic of Ethiopia under the Global Food Crisis Response Program Emergency Program Paper for a proposed Additional Financing, Report No. 46658-ET dated November 25, 2008.
11. State Owned Enterprise Reform , Ha-Joon Change, United Nations, Department for Economic and Social Affairs (UNDESA, 2007)

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