

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB1172

Project Name	Private Sector Development
Region	AFRICA
Sector	General industry and trade sector (100%)
Project ID	P050272
Borrower(s)	Government of Ethiopia
Implementing Agency	Ministry of Trade and Industry
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input checked="" type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

PSD constraints in Ethiopia are generally well documented as a number of analytical studies have been undertaken recently to determine their nature and scope.¹ The need for reforms to stimulate private sector development (PSD) to facilitate poverty reduction has been recognized by the Government of Ethiopia (GOE) in two key strategic documents – the Sustainable Development and Poverty Reduction Program (SDPRP, 2002) and the Industrial Development Strategy (2002) – which outlined the Government's key objectives and a strategy to achieve them.² The objectives are to increase the contribution of private sector to GDP growth as measured by private investment in GDP and to increase factor productivity. This is to be achieved through implementation of a comprehensive and far reaching reform package over a medium- to long-term in a consistent and gradual manner. The reforms include measures to improve the investment climate (including privatization), trade policy, reduce regulatory burden (including tax policy and administration), improve access to infrastructure, land and finance.

Over the past two years the Government has commenced the efforts to stimulate PSD, with various degrees of success. There is a commitment from the Government to continue the implementation of measures necessary to remove main bottlenecks to PSD. The Government strategy is to continue with the implementation of the first-generation of reforms that aim to create pre-conditions for growth. The donor community is assisting GOE to implement the critical mass of reforms through a number of sector-specific (i.e., health, education, and roads sector development programs) as well as cross-sectoral operations, including budget support through a series of PRSCs. One of the key pillars of the PRSC operations focuses on stimulating economic growth and investments.

The proposed PSD Capacity Building (PSD CB) project is 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. It is complementary to the already ongoing efforts led by the Bank and other donors in the areas of improving access and availability of infrastructure and public sector reforms. It will provide support and technical assistance necessary for the Government to achieve key PSD policy reforms agreed under the

¹ Among them are: (i) ICA, 2004; (ii) DTIS, 2003; (iii) CEM, draft in 2004; EDRI survey MSMEs (2004)

² Please see Annex 1 for more details.

framework of PRSC and to implement the first-generation of PSD reforms. Due to the programmatic nature of the PRSC and long-term nature of the PSD agenda, the PSD CB project should be seen as the first in the series of operations supporting the Government in achieving its development objectives.

Sector Specific Issues

Although Ethiopia exhibits high potential for private sector-led growth and economic diversification and despite the Government's efforts thus far, Ethiopia's private sector is not growing as fast as it should. It remains weak and underdeveloped and can be characterized by three major and inter-related features (ICA):

- (i) Small number of businesses compared to the country's size and small size of firms by international standards.³
- (ii) Low labor productivity – despite the fact that the cost of labor is very low, compared to some leading countries exporting labor-intensive manufactures,⁴ a typical worker in Ethiopia is 80% less productive than the average worker in Bangladesh and less than half as productive as the average Chinese worker.
- (iii) Low level of exports - despite the low labor cost advantage, almost all Ethiopian firms are producing for the domestic market and only a few firms participate in export activities or managed to attract foreign capital.

Several important constraints that contribute to the infancy and slow growth of Ethiopian private sector remain to be addressed. While many of these constraints are structural - such as the high transport costs and low domestic demand - others relate to policies and institutions, such as:

- (i) Dominant public sector, lack of effective competition and level playing field.
- (ii) Weak integration of Ethiopian economy into the regional and international economy.
- (iii) Low capacity and labor productivity of the private sector to compete.
- (iv) Weak institutional support to PSD.

The private sector has an important role to play in achieving the goals outlined in SDPRP and the Industrial Development Strategy. For that to happen, the Government intends to accelerate the PSD reform agenda and focus on building a conducive environment for the private sector and eliminating constraints to PSD. Attaining high and sustainable level of growth needed to realize the MDGs will also require improving the linkages between urban and rural areas to increase and diversify production of tradable goods, fostering complementarities between public and private investment, facilitating linkages with the regional and global economy, and building the capacity of the private sector to raise the productivity of labor and increase competitiveness of the Ethiopia economy (CEM). The proposed project aims to overcome the aforementioned constraints and raise the competitiveness of the private sector.

Public sector dominance

Although the supremacy of the public enterprises (PEs) in the Ethiopian economy has been declining over the years, it still remains significant. All the utilities remain under state monopoly. The banking and insurance sectors, are also under state monopoly or extended control. The banking sector is dominated by

³ A median surveyed firm hired only 14 employees compared to 251, 20, and 210 for China, Kenya, and Bangladesh, respectively.

⁴ A median manufacturing wage rate is almost 30% that in China and about 40% lower than that in Bangladesh.

three state-owned banks; public banks account for 70% of branches, 70% of total capital, 55% of savings and 44% of loans.

The manufacturing sector, which is considered by the Government as an important source of economic growth outside of agriculture, is also dominated by PEs. The most recent 2003 CSA survey of the large and medium scale manufacturing industries indicates that 143 PEs out of a sample of 909 firms account for 72% of total manufacturing value added, 62% of gross value of production, employ 57% of the manufacturing workforce and account for 64% of wages and salaries. The largest public sector involvement is in wood, construction services, and basic iron and steel; it is also significant in the sectors considered as potential sources of growth and the best candidates for private investment (i.e., food and beverages, leather and leather products, and textiles and garments sectors).

The GOE recognized that increased level of private participation would be crucial for sustained growth. Consequently, one of the key components of the reform efforts included transformation of the structure of the economy to more private-sector driven through PE sector reform. The Government adopted a multi-pronged strategy comprising placing PEs under hard-budget constraints and restructuring of the PE sector, including privatization. In 1994 the GOE started implementing a Privatization Program by establishing the Ethiopia Privatization Agency (EPA) and the sale of over 200 PEs started in 1995. After an initial phase of success in mid 1990's, the number of enterprises sold dropped to near stalling in 2003. Forty one PEs are reported to have been tendered but not sold. During 2001-03 only 7 PEs were sold for just over Birr 20 million.

As of today, the total PE sector comprises 157 enterprises, excluding utilities, of which 138 have been slated for privatization. The majority of the PEs (62%) are in the industrial sector (the largest being construction and textiles), accounting for nearly 70% of the sector, followed by services and agriculture sectors (24% and 14% respectively).

The Government recognized the need for accelerating the privatization program and identified a number of issues to be addressed that contributed to the slow down of the privatization process pertaining to institutional aspects, procedures governing the process and the inclusion of labor and land issues as a part of the privatization transaction. These issues would need to be dealt with if the privatization program is to accelerate and pick up pace.

Weak competition and lack of level playing field

In addition to privatization, another way of increasing private sector participation in the economy is through facilitating the entrance of new firms, domestic and foreign. A number of factors are important before an investor can make a long-term financial commitment in a country, of which the most important one is an effective system of laws, regulations and institutions ensuring fair competition and level playing field. Unfortunately, Ethiopia has particularly weak domestic competition and market contestability in many sectors (CEM). As a result, as described in previous section, Ethiopia maintains a highly monopolistic structure of the economy with state-run or controlled enterprises in many sectors.

An additional difficulty arises from the widespread operations of the, so called, "foundation" or "Party" companies.⁵ The private sector asserts that these firms have preferential access to contracts,

⁵ These companies, established as foundations at the end of the civil war, are well-capitalized private businesses understood to be under the effective control of coalition parties, either through shareholdings held by party-controlled foundations, or by individual shareholdings held by high-ranking party members. They are active in most major sectors, including fertilizer, cement, transport, insurance and microfinance/MFIs.

information and finance (ICA). Data on the size of the turnover of these firms relative to the size of the rest of the private sector, their competitiveness and profitability are not available. Nonetheless, these firms have important financial resources, allowing them to take a long-term view and grow in spite of the adverse business environment and allegedly low productivity levels.

Results of ICA seem to confirm the hypothesis of uneven playing field and preferential treatment of the public sector firms. PEs have easier access to physical infrastructure and enjoy faster administrative services. For instance, the average time to get a landline for a private firm is four times longer than for a PE. The difference is twofold for getting access to grid power. PEs have to deal with regulatory inspections less than large private firms. Further, analysis of the CSA Survey also seems to confirm that PEs have the opportunity to delay interest charges, while private sector enterprises may not enjoy similar treatment.

Finally, if the privatization program picks up momentum, it is likely that main changes in overall industrial structure and market dominance in Ethiopia will occur in the short- to medium-term. Consequently, in parallel with the actions discussed in the section concerning the privatization program, it will also be necessary to undertake other competition policy related activities to ensure that the privatization program would be designed and implemented in such a manner as to facilitate entry of new players in the market and limit the dominance of incumbent enterprises in markets and sectors (irrespective of whether they are foreign or domestic, public or private, or for profit or not).

Although an effective policy to increase domestic competition has yet to be implemented, the Government of Ethiopia has recently started the process. The Trade Practices Proclamation came into force in 2003 and established rules on anti-competitive practices such as price collusion, abuse of market dominance, anti-dumping and consumer protection. The Government has indicated its intention to proceed with the implementation of the Proclamation. An Investigation Commission and a Secretariat have been established within MoTI and the members for the former body have been appointed, including representatives of the public and the private sectors. The Ministry plans to utilize the Domestic Trade Department as the secretariat for the Competition Commission.

Weak integration of Ethiopian economy into the regional and international economy

Ethiopia is poorly integrated into the regional and international economy and it has not participated in the benefits of globalization. CEM provides some evidence to support this statement by analyzing FDI penetration and export performance. Firstly, the country has not yet seen significant positive effects on private FDI, and entries of new firms in domestic markets remain limited. This is reflected in only a slight increase in FDI from \$105 million in 2001/02 to \$189 million in 2002/03. This weak performance is even more evident taking into account a large "diaspora" which in the case of other countries often invest in their home country. The key constraint relates to restriction of foreign ownership in key sectors - financial sector (except on management contracts), infrastructure and in domestic wholesale and retail activities. However, some restrictions have been relaxed in recent years in and the Government seem to become more open to private sector activity in energy production (although urban power distribution remains protected) and the telecommunication sector. Another reason for the lack of FDI may stem from the problems with the inability to sell PEs; many large PEs have been put up for privatization but have either not attracted significant interest from potential buyers or the deals were not closed due to valuation discrepancies. Finally, Ethiopia may still suffer from lack of business confidence, which results partly from the problems of the recent past related to the war, recession and imprisonment of several businessmen in the context of anti-corruption measures.

Secondly, Ethiopia has not been able to reap the benefits of the rapid expansion of international trade over the last decade particularly in sectors where it has potential, such as non-traditional agricultural products, labor-intensive manufacturing activities, and tourism. This is especially disappointing given the availability of AGOA privileges in the apparel industry, a significant cost advantage for labor, and a substantial reduction in import protection (the weighted average tariff having fallen from 29% in 1995 to 17.5% in 2002). Export earnings are equal to only 16% of GDP, and the country continues to be heavily dependent on coffee, which accounts for some 40% of merchandise exports. Exports amount to only \$15 per capita, compared to \$34 in Tanzania, \$53 in Uganda, and \$160 in Ghana. Ethiopia's manufactured exports amount to a meager 10% of its already small export total. Of still greater concern, exporting Ethiopian firms account for less than 8% of the population of firms, which is very small by any standard (ICA). The private sector operates predominantly in the context of the domestic market, in isolation even from the regional markets. The firms surveyed reported having problems with competing both in domestic and export markets on price/cost competitiveness, quality of products, and timeliness/costs of product delivery.

The Government expressed its commitment to increase the integration of Ethiopian economy into the regional and international economy through attaining membership in the WTO. WTO accession has also emerged as a top priority in the DTIS follow-up consultations. Ethiopia is currently holding observer status in WTO. The Memorandum on the Foreign Trade Regime has been finalized and submitted to the Council of Ministers for approval. After this, the Office of the Prime Minister will formally submit the Memorandum to the WTO, which will launch the accession process. Further, recognizing the size of the challenge ahead, the GOE has decided to create a well-staffed department devoted to this task within MoTI. This process is still ongoing and will be assisted by the public sector reform program.

Weak Enterprise Skills and Institutional Support to PSD

The results of ICA clearly show that productivity and competitiveness of SMEs in Ethiopia are among the key constraints to their growth and development. The reasons for Ethiopia's labor productivity shortfall are manifold: (i) manufacturing businesses are too small and consequently lack the economies of scale of their foreign counterparts; (ii) Ethiopia's factory workers are far less equipped than their counterparts elsewhere with machines, tools, or space. However, the largest contributor to the productivity gap are differences in skill levels. Indeed, according to the EDRI survey of micro and small enterprises (2004) nearly 90% of the operators did not receive any pre or post vocational or technical training. For these reasons, capacity building (CB) is of critical importance for Ethiopia to meet its growth and poverty reduction objectives.

Ethiopia probably has one of the least-developed business development services (BDS) markets in the world. Currently, CB for the individual firm consists mainly of open training courses and limited assistance with business planning supplied by public-sector entities at highly subsidized fee rates. As a result, private supply of BDS's has barely started to develop. Lack of BDS services facilitating knowledge and technology transfer severely limits the potential of firms to enter and compete in the international and regional markets. According to ICA survey, astounding 70% of non-exporting firms noted the inability to produce to clients' standards and specifications and the high cost of meeting the clients' technical requirements among the three primary reasons for not engaging in export/import activities. Another 20% reported the high costs of establishing foreign distribution networks as among the main constraints to exporting. Thus, there is clearly substantial scope for introducing BDS usage to Ethiopian firms, in order to acquire necessary skills and technology to improve their labor productivity, structure and organization of their business.

As in many African countries, the Ethiopian private sector also faces a significant credit constraint. According to ICA, about 28% of private firms ranked lack of credit as one their three biggest problems.⁶ It also appears that obtaining credit is a greater challenge for SMEs than for large enterprises. As a result, limited access to credit appears to be a major obstacle to investing in business expansion and enhancing capacity and productivity. Broadening access to financial services, strengthening entrepreneur capacity to borrow from banks, and promoting entrepreneurship and business innovation would thus be key to improving efficiency and productivity in the Ethiopian private sector.

Institutional support to PSD is also weak. Public and private sector institutions such as sectoral and professional associations, chambers of commerce, investment, export promotion, quality and standards agencies, etc., have limited capacity to effectively play their supportive role. The network of chambers of commerce, headed by the Ethiopian Chamber, is the main channel by which private sector interests are represented, both in the formulation of new GOE policies, and in dealing with problems in the implementation of policies. The chamber movement, although in receipt of various forms of donor support, still lacks the capacity to fully represent its members in the dialogue with GOE.

As for industry-specific and professional associations, most of them are relatively new, inexperienced and unclear about their role; have low membership penetration and few services of real benefit to members, thus insufficient fee income. Generally, members do not yet place a high value on advocacy. Few associations spend time and resources on preparing their advocacy with professionally-prepared submissions or proposals. Although a recently formalized PPCF is gaining momentum, Associations are yet to establish their role in participating and channeling dialogue between their members and the Government. Associations have not yet established good links with international networks, so as to learn from experiences elsewhere how to develop creative new income-generating services, and how to increase membership penetration.

A very similar pattern exists in professional institutes and associations. Regulation of the professions is still done by government. But it is clear that the Government is open to moving to self-regulation, for instance, for consulting engineers. The association representing this profession has so far been too weak and under-funded to be able to respond effectively to this important opportunity.

2. Proposed objective(s)

The key objective of the project is to facilitate increased participation of the private sector in the economy by creating conditions for improving its productivity and competitiveness, and hence its ability to compete. This goal will be achieved by improving the business environment and ensuring a level playing field for all economic agents, strengthening the linkages with the global economy; strengthening institutional support for employable skills and business management; and improving the productivity at the firm level. The project measures will also support poverty reduction strategy dialogue and implementation of policy measures agreed in the framework of the PRSC.

3. Preliminary description

The PSD CB Project is designed as a complementary operation to provide TA support to ensure effective and timely implementation of the PSD policy agenda under the PRSC in the areas of privatization, competition policy and WTO accession. The project will consist of the following four key components:

⁶ Inadequate access to credit, high collateral requirements (an average of 136% of loan value), and high interest and transaction costs of obtaining loans from banks are cited as the chief causes of constraints. A majority of private businesses do not have a long business relationship with their primary bank.

(i) Accelerating the Implementation of Privatization Program; (ii) Improving the Business Environment through Implementation of the Competition Policy; (iii) Strengthening Integration of Ethiopia Into the Global Economy Through Support to WTO Accession; and (iv) Strengthening Enterprise Skills and Institutional Development. The project will also support Implementation Arrangements (PIU).

The scope and coverage of each of the components will be further refined and determined in details based on: (i) results of the PHRD-funded studies currently ongoing; (ii) discussions with the donors so that the overlapping and duplication is minimized; and (iii) discussions with the Government and the private sector to ensure their ownership and buy-in.

COMPONENT ONE - ACCELERATING THE IMPLEMENTATION OF PRIVATIZATION PROGRAM

This component will assist the Government in accelerating the implementation of the Privatization Program. The Government recognized that the approach to privatization would need to be substantially revised and to that effect is currently preparing a Privatization Strategy/Action Plan (the issuance of such a strategy will be a prior action for PRSC II as well as for ADB's support to the program) that the project will help implement over the next five years. The strategy would allow for a wider assortment of divestiture instruments in addition to outright sale, including public-private participation through concessions, leasing arrangements, joint ventures, etc. Currently, a PHRD-funded assignment is ongoing to enable the Government to categorize enterprises by the most appropriate mode of divestiture taking into account the government's objectives and constraints facing the country in each PE sector. This will be the first step in formulating a Privatization Action Plan.

Further, the project will help the Government to address institutional constraints, streamline privatization procedures and make marketing efforts more effective and efficient. To that effect legislation was recently passed allowing for the merger of the key privatization agencies into a one unit. While the organizational structure is still being developed, the agency will need institutional and capacity building assistance. Further, to increase the effectiveness of sales, there will also be a need for increased use of transaction advisors for valuing and marketing enterprises. Both activities are to be funded under the PSD CB Project.

Another measure the Government is currently reviewing to re-energize the process is to address the issues of excess labor and potential redundancies including retrenchment packages and assistance to public enterprise staff who choose to enter the private sector. Currently, a PHRD-funded assignment is ongoing that will: (i) help design a redundancy program; (ii) recommend a social safety net which would provide for counseling and retraining of affected workers (where applicable) to build up of their entrepreneur skills, and where possible ownership through ESOPs; and (iii) provide a dependable estimate of the potential total liabilities of retrenchment to be incurred as a result of respective management's views on making PE's attractive for privatization, given current statutory and contractual arrangements. All the above are intended to be included under the PSC CB Project.

Finally, as part of the preparation, GOE will undertake the environmental pre-audit of the selected PEs to cover potentially environmentally sensitive activities in the industrial manufacturing, mining, sugar production, etc., that may have past and ongoing environmental management issues/risks with respect to production and waste handling practices. As a result, PEs will be classified according to the anticipated environmental liability, which will determine which PEs would need to have comprehensive audits and assessments, and which need partial and no audit at all prior to their privatization.

COMPONENT TWO – IMPROVING THE BUSINESS ENVIRONMENT THROUGH IMPLEMENTATION OF THE COMPETITION POLICY

This component aims to increase the contestability of the markets by ensuring a level playing field and a fair competition for all economic agents. It will provide technical assistance and financial support to assist GOE in implementation of the Competition Law Proclamation. Currently a PHRD-funded consultancy assignment is ongoing that would enable to determine the scope and nature of support required. Nonetheless, at this stage it is envisaged that the following activities may be funded under the PSD CB project:

- (i) Preparation of the interpretation guidelines on various provisions of the Proclamation and the administrative procedures for conducting investigations, gathering evidence, measures safeguarding the rights and obligations of different parties involved in competition case matters, and other such related matters generally necessary for the effective implementation of competition law-policy.
- (ii) TA to conduct policy oriented and sector specific studies as the Government needs to assess where competition and the effective functioning of markets may be unnecessarily impeded by government regulation, policies and/or private restrictive business practices and institutional arrangements.
- (iii) TA to review the overall size and sectoral composition of the major industrial groups in Ethiopia in order to establish what impact on market concentration the possible participation of such groups in various privatization transactions would have. TA to review competition (both from other domestic enterprises and from imports) in the sectors where a large number of PEs are candidates for privatization so that measures are put in place to protect and safeguard competition principles.
- (iv) Training programs, workshops, and study tours to develop the skills and capacity of the Commission and the Secretariat in concepts and methods used to select cases, conduct investigations, gather and interpret evidence, safeguard confidential business information, prepare case and sector specific analyses, recommend remedial actions, fines and other measures to address anticompetitive business and unfair trade practices.
- (v) Workshops, conferences, preparation of supporting materials and publications to disseminate information that will enhance understanding of the Trade Practices proclamation, foster greater accountability and transparency, and build support for competition law and policy.
- (vi) Upgrade resource materials, e.g., books, articles, IT and other necessary office equipment, for the effective functioning of the Investigation Commission and Secretariat.
- (vii) TA to amend the law in order to harmonize it with international best practice and separate the consumer protection and anti-dumping aspects from the competition policy aspects of the proclamation.

COMPONENT THREE - STRENGTHENING INTEGRATION OF ETHIOPIA INTO THE GLOBAL ECONOMY THROUGH SUPPORT TO WTO ACCESSION

This component will assist the GOE in achieving the goal of WTO accession through CB and TA to properly manage the process according with the recommendations of DTIS Study. As a first step, using the PHRD grant, the GOE is in the process of developing a Road Map, which will (i) lay out the different steps involved and the types of support needed; (ii) develop a coherent and comprehensive package of support to the WTO accession process around the key stages in the accession process; and (iii) enable the GOE to organize its own program and discuss with the donor community the appropriate combination of TA assistance required. It is expected that for each step, the WTO Road Map will:

- (i) identify the most significant economic issues or trade-offs, and possible conflicts of interest with trading partners;
- (ii) provide reasonably detailed suggestions for measures that could be supported by the PSD CB Project (such as training, analytical support, technical support, administrative capacity building, organizational arrangements, etc.), to enable the GOE to take an informed decision on negotiating positions and be aware of the implications of adopting non-negotiable WTO rules;
- (iii) provide an implementation timeframe.

The outcome of this assignment and further dialogue with the Government and other donors (especially USAID and EU) will provide the basis for scoping the project component.

COMPONENT FOUR – STRENGTHENING ENTERPRISE SKILLS AND INSTITUTIONAL DEVELOPMENT

This component will address important weaknesses in the human and institutional capacity of the private sector. It is a combination of three complementary and mutually reinforcing activities to support an enterprise-level development including CB and improving firm-level competitiveness, tools for business schools to provide training adequate and responsive to the needs of the private sector (both, domestic and foreign), activities to catalyze innovation and entrepreneurship, and building capacity of key private and public sector institutions supporting PSD.

Subcomponent A – Matching Grant Program

The focus of this subcomponent is on building the capacity to increase productivity and competitiveness of the private firms so that it can compete in the domestic and international markets. The subcomponent will also provide support to private sector-specific as well as economy-wide entities such as sectoral and professional associations and chambers of commerce as to improve their advocacy capabilities expand membership, and where appropriate, regulate professional codes of practice. The proposed basic principle of delivery mechanism is through a Matching Grant Scheme (MGS) where an individual firm will provide a certain agreed proportion of the costs of training and/or technical assistance it desires originating from the local or international provider.⁷ It is envisaged that two windows of funds will be provided: (i) for SMEs; and (iii) for private sector organizations such as chambers, associations and training institutes.

Currently three PHRD-funded assignment are ongoing that will determine the exact nature of existing gaps and the scope of support under this subcomponent, help design the scheme and estimate the total value of this sub-component. It is envisaged that the management of the MGS will be subcontracted to an external firm procured through international competitive bidding.

Subcomponent B – Global Business School Network: Improving Opportunities and Training for Entrepreneurs

This sub-component will 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 through a non-profit entity called GBSN Center. In Ethiopia, the GBSN Center will bring together top global business schools with at least three local public or private business schools, or colleagues to establish a unique partnership and, for the first time, create a multilateral approach to managerial capacity building. Existing programs of the GBSN in Africa are currently (i) exploring methods of quality assurance and improvement; (ii) training entrepreneurs; (iii) writing case studies on local firms; (iv) studying MSMEs and documenting cases of issues specific to these firms; (v) improving connections within Africa between business schools with each other and the private sector; and (vi) delivering short

⁷ It is envisaged that especially in the first years of the program, demand for services provided by the international BDS providers may be higher due to lack of good quality domestic/local providers.

courses. While any of these components may be useful in Ethiopia, a specific needs assessment of Ethiopian institutions to be funded under PHRD should clarify what type of project is most needed.

Subcomponent C – Business Plan (Innovation) Competition

This sub-component is part of a larger strategy to provide financing and assistance to Ethiopian SMEs that will enable entrepreneurs to strengthen their skills and develop institutional capacity of institutions providing services, financial and non-financial, to the private sector.

It aims to encourage innovation and entrepreneurship development through a Business Plan Competition (BPC) aimed at: (i) identifying, creating, and nurturing a network of successfully sustainable enterprises that are eligible to tap into the banking sector for further growth, (ii) demonstrating the attractiveness and vibrancy of entrepreneurship as a potential activity for Ethiopians, (iii) demonstrating to Ethiopian banks that lending to SMEs is an attractive and viable business line, and (iv) promote competition among entrepreneurs for new and pioneering ideas aimed at increasing efficiency and productivity. The BPC will seek to address problems on the supply side - lack of finance, as well as on the demand side - inadequate skills base and capacity among local entrepreneurs.

IMPLEMENTATION ARRANGEMENTS

A Project Implementation Unit will need to be created within MOTI responsible for project management and implementation. Organizational and administrative details, as well as its composition will be discussed during the pre-appraisal mission.

4. Safeguard policies that might apply

As a category B project, the PSD CB project is required, under the World Bank safeguard policies to prepare an Environmental pre-audit, based on the triggering of the environmental Assessment Policy (OP/BP 4.01). This environmental pre-audit will be carried out prior to appraisal, for selected PEs scheduled for privatization. The main objectives of the environmental pre-audit are to: (i) measure 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; and (ii) determine the need for remedial actions necessary to bring a given enterprise into compliance with national and Bank safeguard policies prior to privatization.

In addition, the pre-audit will formulate recommendations for partial and full audits for each facility or site, as applicable, and suggest a framework for subsequent audits. The study follows a broad consultation with stakeholder and interest groups, where the capacity of the proposed executing agency, the Ethiopian Environmental Agency and other relevant actors and agencies will be assessed in order to monitor known or contingent environmental, health and social impacts and pre-existing environmental problems of the selected enterprises. In addition, the pre-audit report will delineate the roles and responsibilities of various parties involved in the remediation action plans and their monitoring.

Upon completion, the pre-audit report will be submitted to ASPEN for review, clearance and disclosure in-country and at bank InfoShop prior to appraisal.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	2.5
INTERNATIONAL DEVELOPMENT ASSOCIATION	25
Total	27.5

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