004 Report No.:AC1100		
Project ID: P050272		
TTL: Agata Pawlowska		
Loan/Credit amount(\$m):		
IDA: 25		
(\$m.)		
Sector: General industry and trade sector		
(100%)		
ergency Yes? [] No? [X]		

# A.2. Project Objectives

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. This goal will 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 integrates a set of complementary and mutually reinforcing activities to support enterprise needs, including a matching grant fund, tools for business schools to better train managers, and a business plan competition to catalyze innovation, and entrepreneurship. The project will also support poverty reduction strategy dialogue and implementation of policy measures agreed in the framework of the PRSC.

The higher level objective is to facilitate increased growth and competitiveness of the Ethiopian private sector. This objective is aligned with the Bank's CAS and with the Government's commitment to stimulate PSD to attain high and sustainable level of growth needed to reduce poverty and realize the MDGs.

### A.3. Project Description

To support poverty reduction strategy dialogue and implementation of agreed policy measures under PRSC-II, as well as to build the capacity of the private sector, the PSD CB Project to consist of four components (Annex 4).

- (i) Component One Accelerating the Implementation of Privatization Program;
- (ii) Component Two Improving the Business Environment through Implementation of

- Competition Policy;
- (iii) Component Three Strengthening Integration of Ethiopia Into the Global Economy Through Support to WTO Accession; and
- (iv) Component Four Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations.

# Component One - Accelerating the Implementation of Privatization Program (IDA US\$11.3 million)

This component will assist the Government in accelerating the implementation of its Privatization Program of commercial public enterprises. The Government has recognized that its early approach to privatization needed to be revised substantially and outlined the key principles and approach to the privatization process in a Privatization Action Plan (currently under preparation), which the PSD CB project will help implement over the next five years. The Plan is geared towards accelerating the privatization program. To achieve this objective, the Government intends to make use of a range of divestiture modalities including asset sale, concessions, leasing, joint ventures, management contracts, etc. The Government will adopt process-driven procedures in transactions guided by a market-oriented, open, transparent and competitive bidding process. Further, in order to address concerns of potential investors related to labor issues, the divestiture process will allow the successful bidder flexibility to restructure the labor force of the enterprise. However, to mitigate the social impact of possible redundancies that may result, the Government will offer the investor an opportunity to voluntary separation package within a pre-determined time (e.g., six months) from the initial sale. The exact package (i.e., a menu of options that may include retraining, counseling, early retirement, cash option related to seniority, etc.), a defined formula in accordance with existing legislation as well as a mechanism that ensures that staff benefiting from the program will not be rehired by Government, will be designed prior to the implementation of the redundancy program. This component will provide financial and technical assistance in the following areas:

- (i) Institutional capacity building of PPESA This activity will cover training of the PPESA staff and board members on specific topics such as negotiating skills, contract management, public private partnership schemes and corporate governance. A communications campaign aimed at both the general public and investors will be designed and executed, and an enhanced information system, building on the existing systems that were in use in PESA and EPA, will also be designed and implemented.
- (ii) Transaction advisory services to the divestiture process This activity will support a range of services, including: (a) a long term privatization advisor seconded to PPESA; (b) transaction advisors to assist PPESA throughout complete transactions from preparation through to closing for selected larger and more complex transactions; (c) specific services, such as legal and financial due diligence, for simpler transactions where full transaction advisory services are not considered necessary; and (d) environmental impact assessments

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<sup>&</sup>lt;sup>1</sup> This component has been designed taking into consideration the support ADB has been providing to the EPA and plans to continue providing to PPESA. In selecting activities for IDA support, account has been taken of the activities that the ADB has earmarked for funding. Continued coordination with the ADB is intended throughout the life of the project.

- and reviews, identified as being required during the environmental pre-audit.
- (iii) Excess labor program A program to assist in dealing with excess labor in public enterprises slated for privatization.<sup>2</sup> The program will be the first implemented by Government and covers payment of a severance package and additional funding for a safety net providing a basket of services, such as counseling, retraining and out placement, for redundant workers. A short term consultancy will be funded to assist in the design of the program. It is proposed that the government fund the secretariat or agency that will need to manage the program as part of its co-financing obligation under the credit.
- (iv) Studies A limited number of studies on selected topics to be undertaken by short term consultants. Proposed studies include the development and publication of detailed privatization procedures, the design of a monitoring and evaluation system for public enterprises and the design of a contract monitoring system.

# Component Two - Improving the Business Environment through Implementation of Competition Policy (IDA US\$1.5 million)

This component aims at maintaining and encouraging competition, increasing economic efficiency and competitiveness, and promoting consumer welfare by ensuring a level playing field, fair business practices, and greater accountability and transparency in government-business relations for all economic agents. It will provide technical assistance and financial support to the GOE in the implementation of the Trade Practices Proclamation. This component will provide financial and technical assistance in the following areas:

- (i) Policy development and implementation. This activity would support preparation of guidelines for the implementation of various provisions of the Proclamation including the administrative procedures for conducting investigations, gathering evidence, protecting business confidentiality, measures safeguarding the rights and obligations of parties involved in competition case matters, and other related matters necessary for the effective implementation of competition law-policy. In addition, review and evaluation of the implementation of the Proclamation is included.
- (ii) Staff Capacity and Institution Building through the provision of resident and visiting international experts/advisers to provide advice on case specific matters, investigative techniques, evaluating evidence, and conduct staff training workshops, study tours, seminars, participate in public information dissemination program.
- (iii) Competitive Analysis Studies covering prevailing competitive conditions in key

<sup>&</sup>lt;sup>2</sup> The US\$5million of IDA grant funding earmarked for this activity is likely to be adequate only for the initial phase of the program. Should the program prove to be successful, additional funding will be sought, most probably from other donors.

<sup>&</sup>lt;sup>3</sup> Specifically: (i) it is temporary; (ii) it is partial, although grants are more generous, given a lower ability to pay; (iii) it is first-come, first-serve, with the same emphasis on allowing recipient organizations to decide on activities, and to select their own service suppliers.

<sup>&</sup>lt;sup>4</sup> Approximately 75 percent of the students at FBE are teachers or civil servants, while the remaining 25 percent come from the private sector.

<sup>&</sup>lt;sup>5</sup> The BIZPLAN methodology will be based on best practice and the cumulative experience of the World Bank's Development Marketplace (DM) Competitions. Since 1998, the DM team has supported over 20 country-level competitions and 3 Global Competitions worldwide. Another 10 are planned for 2004-05. In 2003, a DM targeting NGOs and Civil Society Organizations was held in Ethiopia.

<sup>&</sup>lt;sup>6</sup> Participation and involvement of private banks throughout the BPC process is a pre-requisite for BIZPLAN to be operationalized, as they will ultimately provide loans to the winners. It is the intention to finalize the agreements with selected private banks during the appraisal mission.

sectors/industries and how they can be improved through appropriate policies.

(iv) Office Infrastructure for the Competition Secretariat, including office equipment, books, journals, computers, and software.

Component Three - Strengthening Integration of Ethiopia Into the Global Economy Through Support to WTO Accession (IDA US\$1.5 million)

This component will assist the GOE in achieving the goal of WTO accession through CB and TA to properly manage the process. This component will leverage the resources provided by other donors and close key gaps through the provision of financial and technical assistance in the key following areas (see Annex 4 for details):

- (i) Long-term and short-term advisors to help the Government to launch the process by assisting in the collection of information, preparation of responses to questions from WTO members, design and implementation of studies, recruitment of consultants, local training and awareness raising. Short-term consultants will be called upon at later stages to advise on responses to questions received from WTO members and the preparation of negotiating positions.
- (ii) Selected studies to be conducted notably in the services sectors, to identify the issues and options for the GOE.
- (iii) Capacity building in the area of WTO. In addition to short-term courses and seminars, a one-year post-graduate program in trade policy and law will be developed at the University of Addis Ababa in order to increase the number of trade specialists available for government service. On a very selective basis, Ethiopian staff will be sent overseas to participate in relevant courses. One study tour will be organized for key senior government officials so that they may learn from the experience of another, recently acceding country. Various workshops will be conducted for the private sector, civil society and parliament, in Addis and the provincial capitals, in order to improve public awareness of the objectives, issues and challenges involved.
- (iv) Equipment and materials. A limited amount of equipment and supplies will be provided to ensure that staff in MOTI and one or two other key government ministries have the material support necessary to do their jobs.

Component Four - Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations (IDA US\$6.8 million)

This component will help strengthen human and institutional capacity of the private sector. It includes four complementary and mutually reinforcing sub-components for which the PSD CB project will provide financial and technical assistance:

- (i) FIRMCAP aimed at building international competitiveness within private firms.
- (ii) ASCAP aimed at building the capacity of private business and professional associations and of chambers to better serve their members.
- (iii) SCHOOLCAP Global Business School Network aimed to strengthen the institutional capacity of the Faculty of Business and Economics at the Addis Ababa University.
- (iv) BIZPLAN Business Plan Competition aimed to support and grow private small and medium enterprises (SMEs) in Ethiopia.

#### Subcomponent A – FIRMCAP (IDA US\$2.5 million)

The focus of this subcomponent is on building the international competitiveness of Ethiopian private firms, so that they can compete in both domestic and international markets. The proposed

basic delivery mechanism is a Matching Grant Scheme (MGS) where an individual firm will finance an agreed proportion of the costs of training and/or technical assistance it desires. FIRMCAP will build on long World Bank experience of operating similar MGS schemes in many developing countries. Three types of activities will be carried out by FIRMCAP: (i) pro-active promotion to firms of the benefits of using business development services, in order to build competitiveness; (ii) free, on-going hand-holding and advice in preparing their requests for grant funding; and finally (iii) the grants themselves including approving requests on the basis of compliance with clear eligibility criteria, and monitoring implementation of supported activities.

The MGS concept is different from most traditional approaches to helping firms as the scheme is deliberately temporary. The main "institution-building" achieved will be within each individual firm. The grants will decline over time, so as to reduce the risk of a "grant culture" being developed. The help given is deliberately partial. The firm must make a meaningful contribution to costs. Experience shows that this is essential to ensure real commitment and ownership. In return, however, it is the firm and not the scheme that decides on activities to be supported and that selects the service provider. The firms self-select, and are supported on first-come, first-serve basis.

#### Subcomponent $B - ASCAP(IDA\ US\$1.6\ million)$

ASCAP will 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. It operates under most of the same principles as apply to FIRMCAP.<sup>3</sup> It consists of a combination of three instruments, that are open to any legally registered business or professional association or chamber:

- (i) The Study Fund aimed at building capacity in advocacy, a key function for any representative organization. The fund can support any study on policy matters affecting the investment climate.
- (ii) A series of *Open Workshops* aimed at training association and chamber staff and office-holders in addressing common problems and challenges they face in running such organizations (e.g., increasing membership; collecting subscriptions; developing new services for members).
- (iii) The Association Window into the MGS, aimed at encouraging the use of outside expertise and of travel, to build capacity within associations and chambers.

#### Subcomponent C – SCHOOLCAP (IDA US\$1.5 million)

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 and regional business schools with the Faculty of Business and Economics at the Addis Ababa University – the only institution in Ethiopia that awards graduate degrees in management (MBA) and finance (MSc). This will help establish a unique partnership and, for the first time, create a multilateral approach to managerial capacity building.

Taking into account the composition of students obtaining their degrees at the Faculty of Business and Economics (FBE) at the Addis Ababa University, <sup>4</sup> the technical and financial assistance to FBE provided through the project will fulfill the following objectives: (i) improved level of education available to trainers who teach the private sector; (ii) increased understanding and knowledge of the private sector and the principles of market economy by the civil servants; and (iii) building networks and strengthening collaboration between trainers, the private and public

sectors.

# Subcomponent D – BIZPLAN (IDA US\$1.2 million)

BIZPLAN, or Business Plan Competition, will assist GOE's efforts to support and grow private small and medium enterprises (SMEs) in Ethiopia. BIZPLAN Competitions proved to be an excellent vehicle to identify and support promising small-scale projects. Ethiopian BIZPLAN aims to provide technical and financial assistance to Ethiopian SMEs thus enabling these entrepreneurs to strengthen their skills and increase the availability and quality of services, both financial and technical assistance, to them. By engaging the private banks, BIZPLAN will also strengthen and develop their institutional capacity to provide better services, financial and non-financial, to the private sector.

The Ethiopian BIZPLAN will aim to: (i) promote competition among entrepreneurs for new and pioneering ideas aimed at increasing efficiency and productivity, (ii) demonstrate to Ethiopian banks that lending to SMEs is an attractive and viable business line, and (iii) build capacity in the private sector (of private entrepreneurs, business development service providers, and other private sector institutions.) Winners of the BIZPLAN will receive a financial award (credit from the private banks participating in the scheme) and technical assistance awards (vouchers) designed to address the two main constraints to entrepreneurship growth. The process of identifying the winners is open, transparent, and highly visible, making it attractive for the participants to put their best ideas forward and for the organizers/sponsors to highlight key issues and priorities.

A.4. Project Location and salient physical characteristics relevant to the safeguard analysis:

Project location – Ethiopia – nationwide as the enterprises are located across the country.

Salient physical characteristics relevant to the safeguard analysis – TBD by the environmental pre-audit currently being undertaken and the subsequent detailed audits.

# B. Check Environmental Category A [], B [X], C [], FI []

Comments: 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 is currently being carried out, 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.

C. Safeguard Policies Triggered		
	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[]	[X]
Cultural Property (draft OP 4.11 - OPN	ГI	[V]
<u>11.03</u> -)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[]	[X]
Indigenous Peoples (OD 4.20)	[]	[X]
Forests (OP/BP 4.36)	[]	[X]
Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[X]
Projects on International Waterways	ſ1	[X]
( <u>OP/BP</u> /GP 7.50)	[ ]	$[\Lambda]$

# Section II – Key Safeguard Issues and Their Management

# D. Summary of Key Safeguard Issues.

D.1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts.

TBD by the environmental pre-audit currently being undertaken. There are no potential irreversible impacts.

D.2 Describe any potential indirect and/or long term impacts due to anticipated future

<sup>\*</sup> By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

activities in the project area.

N/A

D.3. Describe the treatment of alternatives (if relevant)

N/A

D.4. Describe measures taken by the borrower to address safeguard issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The environmental pre-audit will provide more details. 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; (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, as the project unfolds, the capacity for safeguard policies, if necessary, will continue to be monitored. The environmental pre-audit will come out with the exact measures and the institutional arrangements for implementation.

D.5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The key stakeholders include three groups: (i) small and medium enterprises from the private and the public sectors; (ii) the meso-level private sector institutions (chambers, industry and professional associations) that serve these enterprises; and (iii) public sector entities that are implementers of the competition policy, WTO accession and privatization program, as well as institutions related to the environmental and social safeguard policies and occupational health (e.g., Ministry of Labor and Social Affairs, Environmental Protection Authority, Ministry of Health).

These stakeholders were consulted through direct meetings as well as through workshops and seminars, but no particular safeguard policy decisions were necessary.

Environmental Assessment/Audit/Manager	ment Plan/Oti	her:	
Date of receipt by the Bank	1 Nov 2004	or Not Applicable	
Date of "in-country" disclosure	3 Nov 200	4 or Not Applicable	
Date of submission to InfoShop	3 Nov 200	4 or Not Applicable	
For category A projects, date of distributir	ng the Executi	ive Summary of the EA to	the the
Executive Directors	//	or <b>Not Applicable</b>	
Resettlement Action Plan/Framework/Poli	icy Process:		
Date of receipt by the Bank	//	or <b>Not Applicable</b>	
Date of "in-country" disclosure	//	or <b>Not Applicable</b>	
Date of submission to InfoShop	//	or <b>Not Applicable</b>	
Indigenous Peoples Development Plan/Fra		••	
Date of receipt by the Bank	//	or <b>Not Applicable</b>	
Date of "in-country" disclosure	//	or <b>Not Applicable</b>	
Date of submission to InfoShop	//	or <b>Not Applicable</b>	
Pest Management Plan:		11	
Date of receipt by the Bank	//	or Not Applicable	
Date of "in-country" disclosure	//	or <b>Not Applicable</b>	
Date of submission to InfoShop	//	or <b>Not Applicable</b>	
Dam Safety Management Plan:			
Date of receipt by the Bank	//	or Not Applicable	
Date of "in-country" disclosure	//		
Date of submission to InfoShop	//		
If in-country disclosure of any of the abov			
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Is a separate PMP required?		X
If yes, are PMP requirements included in project design?		X
Draft OP 4.11 (OPN 11.03) - Cultural Property:	Yes	<u>No</u>
Does the EA include adequate measures?		X
Does the credit/loan incorporate mechanisms to mitigate the potential		37
adverse impacts on physical cultural resources?		X
OD 4.20 - Indigenous Peoples:	Yes	No
Has a separate indigenous people development plan been prepared in		X
consultation with the Indigenous People?		Λ
If yes, then did the Regional Social Development Unit review and		X
approve the plan?		Λ
If the whole project is designed to benefit IP, has the design been		X
reviewed and approved by the Regional Social Development Unit?		Λ
OP/BP 4.12 - Involuntary Resettlement:	<u>Yes</u>	<u>No</u>
Has a resettlement action plan, policy framework or policy process		X
been prepared?		71
If yes, then did the Regional Social Development Unit review and		X
approve the plan / policy framework / policy process?		71
<i>OP/BP 4.36 – Forests:</i>	<u>Yes</u>	<u>No</u>
Has the sector-wide analysis of policy and institutional issues and		X
constraints been carried out?		71
Does the project design include satisfactory measures to overcome		X
these constraints?		
Does the project finance commercial harvesting, and if so, does it		X
include provisions for certification system?		
OP/BP 4.37 - Safety of Dams:	<u>Yes</u>	$\frac{\text{No}}{\text{X}}$
Have dam safety plans been prepared?		X
Have the TORs as well as composition for the independent Panel of		X
Experts (POE) been reviewed and approved by the Bank?		
Has an Emergency Preparedness Plan (EPP) been prepared and		X
arrangements been made for public awareness and training?	***	
OP 7.50 - Projects on International Waterways:	<u>Yes</u>	No V
Have the other riparians been notified of the project?		X
If the project falls under one of the exceptions to the notification		V
requirement, then has this been cleared with the Legal Department,		X
and the memo to the RVP prepared and sent?		v
What are the reasons for the exception?		X
Please explain:		X
Has the RVP approved such an exception?	Vac	X No
OP 7.60 - Projects in Disputed Areas:  Has the mame conveying all partinent information on the	<u>Yes</u>	<u>No</u>
Has the memo conveying all pertinent information on the international aspects of the project including the procedures to be		
international aspects of the project, including the procedures to be		X
followed, and the recommendations for dealing with the issue, been		
prepared, cleared with the Legal Department and sent to the RVP?  Does the PAD/MOP include the standard disclaimer referred to in the		
OP?		X
OI :		

BP 17.50 - Public Disclosure	:	Yes	No
Have relevant safeguard police	cies documents been sent to the World		
Bank's Infoshop?			
Have relevant documents bee	n disclosed in-country in a public place		
in a form and language that a	re understandable and accessible to		
project-affected groups and lo	ocal NGOs?		
All Safeguard Policies:		Yes	No
Have satisfactory calendar, bu	udget and clear institutional		
responsibilities been prepared measures?	I for the implementation of the safeguard	X	
Have safeguard measures cos	ts been included in project cost?	X	
<u> </u>		TDB in detailed	
		EAs	
Will the safeguard measures of	costs be funded as part of project	X	
implementation?		Λ	
_	luation system of the project include the	X	
monitoring of safeguard impa		21	
	ation arrangements been agreed with the		
	dequately reflected in the project legal		
documents?			
Signed and submitted by:	Name	<u>Da</u>	
Task Team Leader:	Agata Pawlowska	28 Octob	er 2004
Project Safeguards			
Specialist 1:			
Project Safeguards			
Specialist 2:			
Project Safeguards			
Specialist 3:	N		
Approved by:	<u>Name</u>	<u>Da</u>	<u>ite</u>
Regional Safeguards			
Coordinator:			
Comments:			
Sector Manager:			
Comments:			