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DATA SHEET TEMPLATE FOR PROJECT PAPER

Date: (Date RVP Approves) Country: Ethiopia Project Name: Private Sector Development Capacity Building Project. Project ID: P050272	Task Team Leader: Magdi M. Amin Sector Manager/Director: Gerardo M. Corrochano/Marilou Uy Country Director: Kenichi Ohashi Environmental category: B

Borrower: Federal Democratic Republic of Ethiopia, Ministry of Finance and Economic Development
Responsible agency: Ministry of Trade and Industry

Revised estimated disbursements (Bank FY/US $m)

FY	2005/06	2006/07	2007/06	2008/09	2009/10
Annual	**749 (actual)**	**1225 (actual)**	**7526**	**7150**	**7336**
Cumulative	745	1975	9504	16664	25250

Current closing date: July 15, 2010
Revised closing date [if applicable]:

Indicate if the restructuring is:	
RVP Approved	
Does the restructured project require any exceptions to Bank policies?	No
Have these been approved by Bank management?	N/A
Is approval for any policy exception sought from the Board?	No

Project development objective/outcomes

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.

Does the restructured project trigger any new safeguard policies?

No, it triggers no new safeguard policies

Revised Financing Plan (US $m.)

Source	Local	Foreign	Total
Borrower	18.3	-------	18.3
IBRD/IDA	------	25.2	25.2
Others	------	-------	-------
Total	18.3	25.2	43.5

Restructuring of the
Ethiopia - Private Sector Development Capacity Building Project

Project Paper

A. Introductory Statement

This Project Paper seeks the approval of the Executive Directors to introduce the following changes in the Ethiopia Private Sector Development Capacity Building (PSD CB) Project and any accompanying amendments to the project's legal documents.

The proposed changes will support the realization of the revised project development objective and greater utilization of undisbursed International Development Assocition (IDA) credit of US$16.6 Million, representing 82 percent of the original credit, and undisbursed IDA grant of US$5.2 Million, 100 percent of the original grant.

The restructuring measures, defined through a Government-driven process led by the Minister of Trade and Industry propose to:

- Expand the development objective to incorporate export development, which has become a high priority for the Government and the private sector;
- Refocus the content of capacity building activities in the project by creating a new entity, the Ethiopian Competitiveness Facility, and more specialized program activities oriented toward the export development process at the firm level, as well as export-oriented market institutions such as standard-certification and Diaspora trade and investment institutions;
- Redesign the implementation arrangements for the private sector capacity-building program, by appropriately financing technically-skilled personnel able to improve the intake process and the quality of firm-level support;
- Strengthen Competition Policy;
- Expand funding to activities that are both better performing and aligned with the revised development objective, while reducing funding of program activities that are both underperforming and less directly related to the development objective;
- Restructure the results framework to better measure revised outcomes and remove indicators which cannot realistically be measured in the project timeframe; and
- Extend the closing date to allow more time for implementation.

In combination with reforms in the financial sector and in trade policy the proposed investments will support creation of competitive firms, dynamic sectors, and a more flexible economy that can covert market access opportunities to higher levels of productivity and jobs. As a result of these changes, described in detail below the project is expected to be more effective in achieving the revised Project Development Objective (see Section C).

B. Project Background and Rationale for Restructuring

The Private Sector Development Capacity Building Project was approved on December 21, 2004, the financing agreement was signed on March 10, 2005 and it became effective on July 15, 2005. The IDA credit amount was SDR12.7 million (US$ million equivalent), of which approximately SDR 2.2 million (US$3.6 million equivalent) has been disbursed as ofJanuary 6, 2008, and the IDA Grant amount was SDR 3.4 million (US$5 million equivalent) which remains undisbursed.

The original development objective was 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 original project was comprised of three main components:

(i) Accelerating the Implementation of Privatization Program;

(ii) Improving the Business Environment through Implementation of Competition Policy and Accession to the World Trade Organization (WTO)

(iii) Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations.

Component One Accelerating the Implementation of Privatization Program, (US$10.14 Million). The largest component of the project was designed to assist the Government in accelerating the implementation of its Privatization Program of commercial public enterprises by improving the capacity of the Government 's privatization agency, broadening the range of divestiture modalities including asset sale, concessions, leasing, joint ventures, management contracts, etc, adopting market-oriented, open, transparent and competitive bidding processes, and supporting voluntary retrenchment of workers from state enterprises. It included (a) Institutional capacity building of PPESA, (b) Transaction advisory services to the divestiture process; and (c) the Excess labor program to deal with excess labor in public enterprises slated for privatization.[1] and provide a package of benefits, which may comprise of voluntary redundancy, early retirement, counseling, retraining and out placement, for redundant workers; and (d) *Studies* to monitor compliance by investors with contract covenants.

Component Two Improving the Business Environment through Implementation of Competition Policy and Accession to the WTO (US$1.1 Million). This component aims at assisting the Government in the effective implementation of their competition policy, preparation for WTO accession negotiations, and long-term capacity-building for the formulation and implementation of trade and competition policy It included two subcomponents, Subcomponent A, on Implementation of Competition Policy (support on implementation guidelines and staff capacity building; and Subcomponent B, support to WTO accession through Analytical Studies, Short-Term Advisors, Training, and workshops.

Component Three Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations (US$8.0 Million). This component will help strengthen human and institutional capacity of the private sector. It includes three complementary and mutually reinforcing sub-components for which the PSD CB project will provide financial and technical assistance, Matching Grang Scheme comprising FIRMCAP and ASCAP *(BIZCAP)* – 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; *BIZPLAN* – Business Plan Competition aimed to support and grow private Small and Medium Enterprises (SMEs) in Ethiopia; and School Capacity Building Sub-Component *(SCHOOLCAP)* – Global Business School Network aimed to strengthen the institutional capacity of the Faculty of Business and Economics at the Addis Ababa University

[1] The US$7 million of IDA 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 need to be sought.

At the time of project design, in 2004, the Government and the Bank had agreed that among the principal issues to be addressed in increasing the participation of the private sector was the role of the roughly 150 state enterprises in the economy, and that a combination of privatization, competition policy, WTO accession and firm level support to small and medium-sized enterprises would therefore be an appropriate response.

While some progress has been achieved, two factors affected the project during implementation: evolution of Government priorities, and delays in execution. More specifically·

(a) **The Government's strategy toward private sector development evolved, with an enhanced emphasis on institution building.** Through a combination of experience with implementation and Economic and Sector Work, the Government and the Bank have realized that the process of private sector development will require a greater relative emphasis on building institutions that help integrate Ethiopian firms with markets. Such institutions that promote a flow of information and knowledge about market requirements, that solve export bottlenecks for particular sectors (such as logistics or environmental impact), that build confidence in Ethiopian suppliers by helping them understand and adhere to global has increased in importance as Ethiopia has succeeded in penetrating export markets in the rose and shoe sectors. There was a shift of high-level attention and Government resources toward these issues.

(b) **There was an increasing level of commitment to the process of export development, which was not matched by the interventions designed into the project.** The Government places the private sector at the center of its export development strategy, which is particularly important to address the sizeable gap between its US$4 billion imports and the approximately US$1.15 million in exports. An enhanced emphasis of the client on export development is seen as a means to obtain the private sector growth and employment targets envisaged in the original design. This would require substantial institution-building as well as highly focused capacity building efforts. The Matching Grant Scheme being implemented with the Business Management Unit under Enterprise Ethiopia (a Government project office) proved to be a major obstacle in speeding up the implementation process, and prevented the proactive, informed approach required. As an example, supervision efforts found that the most popular utilization of matching grants was for visiting trade shows (63 out of 82 firms, 43 percent of US$1.4 million in matching grants) whereas those firms had no capacity to achieve export orders or produce to the quality requirements of those markets

(c) **The need for support for privatization is now more targeted.** Privatization remains an important objective of the project and Government, but the Government has become more capable of utilizing the new modalities developed with Bank support in 2004 under PRSC II, and the pace of privatization has steadily increased each year from none in 2003 to 22 in 2006. The need for substantial, generalist, transaction advisory support has diminished. Other donors, particularly the African Development Bank, have provided technical support that makes the originally anticipated broad-based support unnecessary Rather, more targeted support for privatizing specific industrial sectors is now needed. Moving from firms to individuals will also speed up project implementation.

(d) **Project implementation was weak.** Delays in project execution have affected most project components, in part a result of project complexity and unfamiliarity with many agencies with Bank procurement and disbursement arrangements. Hiring of firms utilizing QCBS procedures have been particularly difficult. Furthermore, the Government's implementation arrangements for firm-level capacity building, which vested the task with a Government agency, proved inadequate to the task of providing meaningful support to exporters.

(e) **Policies were found under implementation to require reform.** Supervision efforts found that the policy, law and institutional design supporting competition policy was sufficiently flawed that project effort was required to amend the law rather than support development of implementing regulations or staff capacity

(f) **The sensitive political and governance environment impacted implementation.** Post-election violence particularly in 2005 and 2006 created a difficult environment for normal project activities and contributed to implementation delays, particularly in Addis Ababa University's Faculty of Business and Economics, which was closed for substantial periods.

Implementation Support Reports completed in March and October 2006 raised serious risks on achieving the Project Development Objectives (PDOs) under the existing implementation arrangements. Delays in procurement, disbursement, and utilization of the project resources in almost all areas resulted in an unsatisfactory rating for the project. As of March 2006, the project had disbursed just 5 percent of the targeted amount. At the end of FY06, the project was at 8 percent of expected disbursement levels. In the privatization area the Government was making some progress despite limited utilization of the resources, but in other areas the slow disbursement of technical support had impacted the underlying objectives.

A number of attempts were made to improve performance without restructuring. In June 2006, the Bank undertook an implementation support mission in order to help improve performance without formal restructuring. Each project component was reviewed, and recommendations made to strengthen project implementation. Capacity building activities were held for each sub-component. A more intensified focus on procurement was made by the Government, and the Ministry of Trade and Industry issued directives to strengthen implementation of the matching grant sub-component.

These efforts helped, but not to the extent desired by the Government or the Bank. Implementation support reports completed in November 2006 rated the project moderately satisfactory and unsatisfactory respectively In FY07 project disbursements have increased after several remedial measures and an accelerated effort on procurement. However, as of January 2007 only US$1.4 million out of the total size of US$24.0 million was disbursed, roughly 6 percent.

After concluding that the improvements in implementation were still not satisfactory the Government and the World Bank agreed to move toward a restructured operation in December 2006. The design was completed by June 2007 with internal approvals taking another few months.

C. Proposed Changes

The proposed changes to the project are summarized below and a more detailed comparison of the original and restructured projects can be found in Annex 2, with the cost implications in Annex 1.

(a) **The Project Development Objective is more aligned with the national objective of export development, and is more measurable.** The revised development objective is *to improve the enabling environment and institutional capacity for a sustained increase in private sector investment and exports.* Two new indicators are added: *Value of exports in participating firms and targeted sectors increases 25 percent by the end of the project period, and at least 10 firms starting to export as a result of the capacity building support.* One indicator, the *private investment to GDP ratio,* has been removed due to the lack of ability to isolate the contribution of the project to this outcome (see Annex 3).

(b) **The restructured project introduces the Ethiopia Competitiveness Facility, a new institution designed to house three important forms of export capacity building:** an export market access fund, which will co-finance the development and implementation of comprehensive export development plans at the firm level; the Market Institutions Fund, which will co-finance the development of institutions that integrate Ethiopian firms with markets; and the Business Plan Competition, designed to help create new Ethiopian businesses that respond to new market conditions. The Ethiopia Competitiveness Facility encompasses the original Matching Grant Scheme (MGS) which is redesigned to target potential exporters. The expected outcomes are increased exports and employment by the firms and sectors participating in the MGS, increase in the number of exporting firms with quality and standards certification (ISO, SPS, HACCP etc.). The Business Plan Competition, retained from the original project, will be expanded to finance a third round. The activity to provide generic support to business associations has been dropped.

(c) **The restructuring strengthens implementation arrangements for the Ethiopia Competitiveness Facility to be both more autonomous, and more technically capable of serving the revised objectives (see Annex 2).** An autonomous implementing unit managed by a competitively recruited individual consultant reporting directly to a Public-Private Steering Committee chaired by the Ministry of Trade and Industry The implementation of the export development effort will be augmented by international expertise to be individually recruited base on the needs that emerge both at firm and sectoral levels. A senior Ethiopian manager and two full-time foreign experts will be hired, with specializations in export development and institutional development, whereas the previous arrangement relied solely on a Government agency and domestically-recruited consultants. A United Nations Agency, the International Trade Center (a joint venture of the World Trade Organization and UNCTAD) will be contracted to provide market knowledge. A sum of US$ 1.75 million has been allocated for this purpose.

(d) **The project reallocates funds to better-performing components.** The financial allocation for advisory support with privatization has been reduced, while maintaining a critical mass of funding including for retrenchment and increasing funding for the design of the retrenchment package. The unallocated funds in the original project, US$2.5 million, are now allocated to the enhanced cost of management and funding for the institution building activities.

(e) **Competition policy will be supported through a revision of the Policy, and its supporting legislation and institutional home,** including the Proclamation, Commission, and its Secretariat. The existing policy/legal arrangements for competition policy require reform before further IDA investment. Key reforms needed include making the Secretariat independent, changing the composition of the Secretariat, and reforming the policy itself. The Government requested expert review which resulted in a set of reform recommendations accepted by the Government. A joint Bank-Government team will review the law and structure.

(f) **The project Closing Date will be extended for an additional year to July 2012,** primarily to account for delays during the period of political unrest as well as time for the new recruitment processes resulting from the above changes.

D. Analysis

The proposed changes are not likely to have a major effect on the validity of the original economic, financial, technical, institutional or social aspects of the project as appraised. However, two aspects suggest that the restructuring will increase the economic returns to Ethiopia relative to the project without restructuring.

The original economic analysis suggested a substantial decrease in the Net Present Value (NPV) and the Internal Rate of Return of the projects in the case of a substantial delay in disbursement. A delay in disbursement would reduce NPV from US$22.6 million to US$13.7 million. Given the substantial delays prior to restructuring, the changes are expected to return the project toward the original anticipated base case assumptions for NPV Secondly, 41 percent of the NPV of the original project was attributed to the international competitiveness components of the project. As this component is being expanded and strengthened, the contribution of this component to the overall project, and therefore the NPV of the project, will marginally increase.

While the change in the focus and implementation arrangement of the MGS is expected to have a direct and enhanced impact on export expansion, the privatization component will not be affected. The competition component will be utilized to implement the agreed reforms of revising the proclamation governing competition enabling the creation of a better institutional framework through an independent Commission and Secretariat with better representation of stakeholders and introducing required sills/knowledge.

The proposed changes will not raise the environmental category of the project or trigger new safeguard policies, nor would involve any exceptions to Bank policies.

E. Expected Outcomes

The expected outcomes are increased exports and employment by the firms participating in the MGS, increase in the number of exporting firms with quality and standards certification (ISO, SPS, HACCP etc.). A revised Results Framework is attached to this Project Paper and can be referred to for more details.

The revised indictors are:

- Matching Grant Scheme: increases in the value of exports and number of jobs created by participating firms and value added per worker;
- Privatization: proportion of total value of Statement of Expenditures (SOEs') assets transferred to private sector ownership/management and increases in the value of exports and/or outputs by privatized firms;
- WTO Accession: completion of impact assessment studies and their dissemination to stakeholders through workshops and other consultation processes;
- Competition Policy: a revised Proclamation and institutional set up for the Competition Commission and Secretariat and number of competition cases adjudicated by the commission;
- SCHOOLCAP: curricula revised and adopted, number of graduates trained in international trade and regulatory economics; and
- Business Plan Competition: number of SME start-ups and survival rate of SMEs.

F Benefits and Risks of Restructuring

The export focus of the Matching Grant Scheme is expected to have a positive demonstration impact for exporting firms. More exposure to international markets will create an enhanced learning and innovation to the challenges of the global market. The learning effect will spread to firms and sectors not supported by the Matching Grant Scheme.

The changes proposed in the project do not substantially change the original economic, financial, technical, institutional or social objectives of the project, but greatly increase the likelihood of achieving them. The key expected benefits:

- The export focus of the Matching Grant Scheme will have positive demonstration impact for exporting firms. More exposure to international markets and enhanced learning about the challenges and ways of succeeding spread over an increased segment of the export industry in the country

- The expected outcomes are increased exports and employment by the firms participating in the MGS, increase in the number of exporting firms with quality and standards certification (ISO, SPS, HACCP etc.).

- **Outcomes will become more measurable.** The current scheme cannot ascertain that the firms would not have undertaken the actions if the matching grant fund did not support them. It also does not allow to clearly link the performance of enterprises to the matching grant assistance. Therefore, it is difficult to hold the management (or any other party) accountable for unmeasured results.

- The privatization component will not be affected but use of funds would be more efficient, complementing other donors.

- The competition component, if implemented as proposed, would contribute to the creation of a relatively improved level playing field. Core institutions for administering a competition regime will be created and developed and the general awareness of the private sector players including the general public will be upgraded. However, these benefits, and the implementation of the component, will depend on the Government's ability to revise the legal framework and allow a degree of independence to the Competition and the Secretariat taking competition as one of its priority areas.

The original project was candid about key risks, including a lack of Government support and delays in implementation. These two risks were indeed manifested during implementation. To the extent that the project is now more aligned with Government priorities, the risks are expected to be more modest.

Outcomes will remain somewhat uncertain due to natural and commercial risks. Ethiopia's exports are agro-based, weather failures can affect the supported firms directly or it can affect those supplying raw materials to them in sectors like textiles and garments. Such shocks caused by weather changes can be mitigated by importing raw materials. A second risk is that the various gaps in the value chains of the exporting sectors may not be bridged in equal pace with the demands of the export industry

Implementation of the restructured project will need to build on lessons learned in implementation of the original project, including an intensified focus on procurement, simplified rules where possible, and continued high levels of implementation support both by the Government and the World Bank.

Annex 1:

Comparison of Original PAD and Restructuring Proposal

	ORIGINAL PAD	RESTRUCTURING PROPOSAL	AS APPROVED		PROPOSED	
			SDR 000	**USD 000**	**SDR 000**	**USD 000**
				SDR=1 47 USD		SDR=1 58 USD
	Component 1: Accelerating Implementation of The Privatization Program					
1 1	Institutional Capacity of PPESA	Includes training of staff and development of information systems for managing privatization as well as support for merging two previously separate systems Activity retained and partially implemented.	204	$300	190	$300
1 2	Transaction Advisory Services	Scope of advisory services to PPESA (Privatization and Public Enterprise Supervisory Authority) reduced complementing support from African Development Bank and DfID.	1 022	$1 500	316	$500
1.3	Environmental Audits	Activity retained	613	$900.	570	$900.
1.4a	Design of Retrenchment Program	Activity retained and under implementation.	82	$120.	247	$390.
1 4b	Funding of Retrenchment Program	Activity retained Adequacy of financing will be determined based on final design of retrenchment package.	4 770	$7 000	4 430	$7 000
1.5	Studies	Impact assessments of privatized enterprises.	34	$50.	32	$50.
	Component Total		**6,726**	**$9,870.**	**5,784**	**$9,140.**
	Component 2: Improving the Business Environment through Implementation of Competition Policy and WTO Accession					
2 1	Competition Policy (guidelines, institution building).	Activity to now support development of new legislation to improve the previous framework. This includes ?. ?.	307	$450	285	$450
2 2	WTO Accession (Impact of WTO on financial services and telecoms, advisors)	Studies were completed at a slightly higher cost than originally anticipated, third study may be funded Short term advisors now being recruited, as WTO accession process has now begun.	443	$650	424	$670
	Component Total		**750**	**$1,100.**	**709**	**$1,120.**

	Component 3: Strengthening the International Competitiveness of the Private Sector and Capabilities of Representative Organizations					
3 1a	BIZCAP Firm level Matching Grant Scheme	To be replaced by Ethiopia Competitiveness Facility including development of Export Plans for participating firms and implementation of phased, multi year plans incorporating a broader view of the capacity required for each firm to export.	3 354	$5 000	5 063	$8 000
3 1b	ASCAP Association level Matching Grant Scheme	Association level grants to be eliminated Associations may propose activities which create market enabling institutions only.	503	$750		0
3 1c		International Trade Center (WTO/UNCTAD) to provide market intelligence to new exporters.	0	$0	190	$300
3 2	Management of Program by "Enterprise Ethiopia Government run capacity building organization	Enterprise Ethiopia replaced as manager Management of Ethiopia Competitiveness Facility to include experts in export development and market supporting institutions as well as Ethiopian experts in management consulting Will operate as an autonomous entity reporting to Board of project.	436	$650	1 107	$1 750
3 3	BIZPLAN – Business Plan Competition	Program has been very successful with first two rounds attracting over 900 applicants each A third round has been added.	436	$650	570	$900
3 2	SCHOOLCAP program to strengthen capacity of Faculty of Business and Econ., Addis Ababa University	Program is retained with implementation arrangements enhanced	1 073	$1 600	1 013	$1 600
	Component Total		**5,803**	**$8,650.**	7,942	**$12,550.**
	Management (PCU Costs)	Factoring in savings since project start	671	$1,000.	532	$840.
	Price Contingency		570	$850.	506	$800.
	Unallocated		1,697	2,530.	633	$1,000.
	Project Total Cost		**16,100**	**$24,000.**	**16,100**	**$25,450.**

Annex 2:

Detailed Description of Proposed Changes

A process of consultation initiated in June 2006, led by the Minister of Trade and Industry, supported by implementation support missions has resulted in the following proposed changes:

Component 1

Privatization: the PPESA has opted to recruit individual consultants for acquiring transaction advisory services which will reduce the cost of technical assistance. Furthermore, the ADB resources amounting in excess of US$2 million are mostly to support the acquisition of transaction advisors. This allows savings of US$1 million.

Component 2

The Trade Practices Commission has not had a sufficiently important impact on fair competition within the private sector and between private and non-private sector firms.

The Commission lacks the support of key stakeholders like the private sector and public bodies that can champion the cause of fair competition. There is a low level of public awareness of the Commission and its Secretariat. The strengthening of the dialogue between the Commission and business community is a key requirement for its effectiveness. This is an area where the project needs to draw on international best practices for the creation of a public-private sector partnership to ensure maximum buy-in by all stakeholders for the project.

The Proclamation contains elements extending beyond competition law towards trade policy, unfair competition, anti-dumping and price regulation. As such, the competition law content of the Proclamation appears to be 'diluted. In particular, the mixture of competition law and non-competition law provisions in the Proclamation is bound to cause confusion over its exact purpose and function. Experience in this regard shows that in *nascent* or *developing* competition law regimes, where the competition law provisions are mixed with unfair competition provisions in particular, unfair trade practices almost always obscure the significance and role of competition.[2] As a result the competition authority usually ends up handling mostly unfair trade cases as opposed to competition cases. This has been the case in Ethiopia.

There are a number of specific clauses in the Proclamation which diverge from good practices in other developing countries, including definitions of specific types of uncompetitive practices, forms of allowable evidence, and procedures.

The Commission is made of five commissioners who have been appointed by the Prime Minister and who are the holders or past-holders of high level Government positions. None of the five commissioners comes from the private sector or consumer organizations. The actual composition of the Commission therefore does not appear to be quite in line with Article 13 of the Proclamation according to which the *unspecified* number of commissioners shall be selected from Government *private organs* and *consumer associations*. Thirdly the

[2] In Tunisia for example there used to be a great deal of confusion over the role of the Competition Council with the majority of cases referred to the Council being unfair competition cases. The situation however has come to improve dramatically with the Council taking the initiative of explaining in its decisions the differences between unfair competition and competition law

composition of the Commission is problematic due to the high-level ranking of those serving as Commissioners, many of whom are occupied by extremely demanding positions which may limit their availability to give competition necessary focus and attention.
The Secretariat on the other hand is staffed with officials serving within the local trade department at the Ministry of Trade and Industry· a qualified lawyer who was appointed around December 2006 and two economists. The Secretariat lacks the capacity to investigate competition cases, or the degree of competition in specific sectors of the economy

Changes in the legal and institutional framework for Competition Policy to:

- Raise awareness and cultivate champions of competition and competitiveness
- Reform the Trade Practices Proclamation in line with good practices internationally including a separate competition policy reforms to the Commission, and improvements to the clauses;
- Support building of the institution, particularly the capacity of the Secretariat.

Component 3

Restructuring and enhancing the Matching Grant Scheme to the Ethiopian Competitiveness Facility. The following changes are proposed to align the MGS focus with the client's export development objectives to introduce specific measurable outcomes.

- A professional organization will be established with a clear mandate and focus on exports, cluster development and a focus on institutions that support exports. This makes the impact of the Export Facility measurable in terms of export capacity and employment generation.
-
- **Firm-level support – Export Development Plans.** Firm level support will be carried out through development of a comprehensive export development plan that will contain all necessary enhancements from the production to the market side.

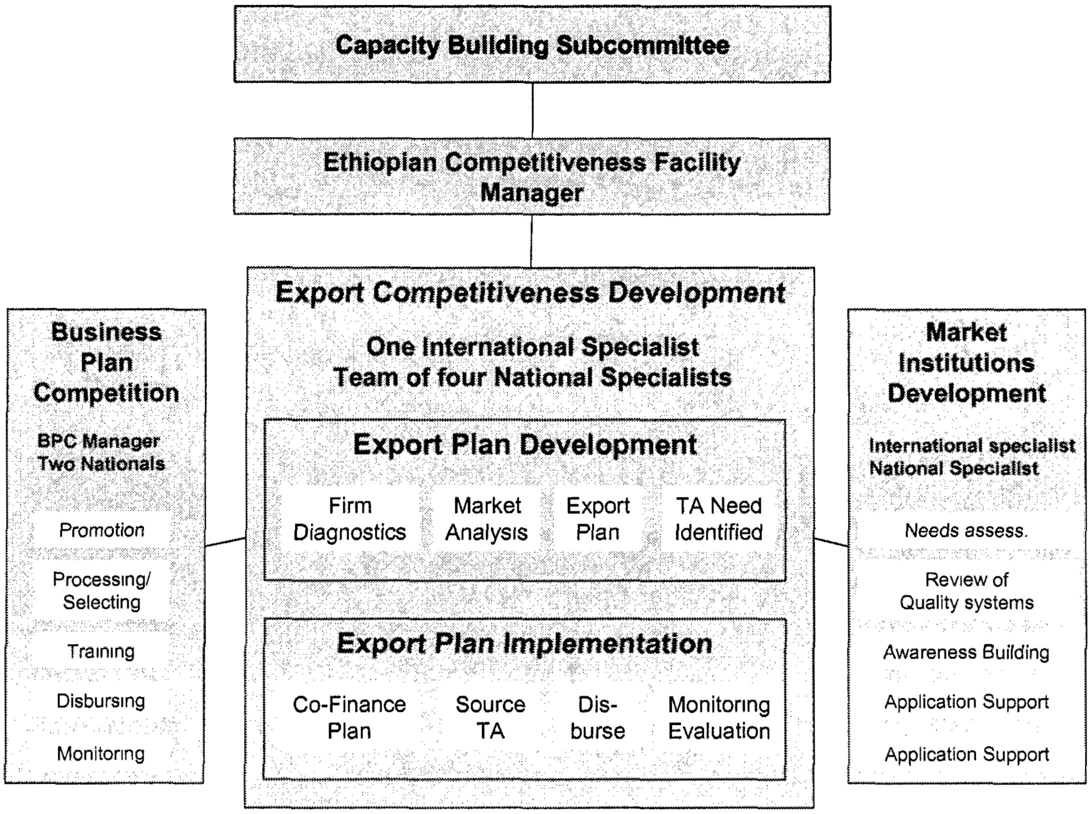
- **Market-supporting institutions.** A third window will focus on the creation of market-supporting institutions that facilitate flows of knowledge and information between Ethiopia and export markets, and reduce transaction costs, including the proposed Diaspora Network to creating trade and investment linkages between exporters and the Diaspora; Supporting the establishment of Institute of Directors to lay the ground work for the introduction of the concept of Corporate Governance and its eventual practice by corporate businesses, and training grants to service providers for quality certification.

The Ethiopian Competitiveness Facility will require an organizational structure that supports this enhanced level of responsibility The organization will require competencies as a professional institution that would generate knowledge based support both for firms and the institutions that can support and enhance the export industries in Ethiopia. The implementing office for the Ethiopian Competitiveness Facility will be staffed by national and international experts with experience and capability to deliver both firm-level and cluster-level support. International staff will be gradually replaced by Ethiopian staff, giving MOTI the option of maintaining the institution past the life of the project if useful.

- **A Management Contractor** will recruited internationally through Terms of Reference that require the firm to hire Ethiopian staff and gradually transfer full operational responsibility to Ethiopian staff over the course of three years. The cost of expertise to develop export capacity based on properly designed Export Plans that take into account both firm level gaps and market requirements is about US $ 2.0 million.

- **The International Trade Center** (ICT) of Geneva is proposed as an implementing partner due to their ability to provide the Facility with market information that is necessary for the development of Export Plans. This is expected to cost $300,000 over two years.

Structure of Ethiopian Competitiveness Facility



Annex 3: Revised Results Framework and Monitoring
ETHIOPIA: Private Sector Development Capacity Building

Project Development Objective	**Outcome Indicators**		
	Before Restructuring	**After Restructuring**	**Use of Outcome Information**
PDO1 Private sector investment	1 1 4 500 jobs created in the private sector by project end 1 2 Value added per worker increased by 20 percent in participating firms 1 3 Increased private investment to GDP ratio from 10 5 percent in 2003/04 to 15 percent in 2009	1 1 Number of private sector jobs created in participating firms and targeted sectors (target ; at least 10% 1 2 Value added per worker in participating firms and targeted sectors (target: 20% increase) *1 3 This indicator is dropped due to inability to correctly measure private sector GDP Moreover this indicator can also be attributed to other causes*	To measure project impact on firm growth
PDO2 Export development	2 1 There was no export indicator in the previous case as the Government did not focus on exports at the time as it is currently	2 1 Value of exports in participating firms and targeted sectors at least 25% increase in exports and/or at least 10 firms starting to export as a result of the support	To measure project impact on export growth
Intermediate Results		**Results Indicators for Each Component**	**Use of Results Monitoring**
Component One: Accelerating the implementation of the privatization program **Result: implementation of the Privatization Action Plan Completed** For Restructuring *IR1 Public sector divestment from private sector activities*	27 percent by Year 3 55 percent by Year 5 of Public Enterprises scheduled for privatization in terms of total value of assets transferred from public to private sector	1 1 Proportion of total value of PE assets transferred to private sector management and ownership (target 27% by Year3 and 55% by Year 5) 1 2 Number of Public Enterprises sold to the private sector (target: 10 p a in the 2004/05 1008/09 period) 1 3 At least 15% increase in the value of exports or outputs (for those not exporting) by privatized firms	To monitor timely implementation of the Government Privatization Action Plan and improvements in use of fiscal resources
Component Two: Improving the	1. By YR2 issuance of	2.1 Revised competition policy enacted with	

Business Environment through the implementation of the comp0etition Policy and accession to the World Trade Organization (WTO) Result: Improve business environment and competition policy under effective implementation <u>For Restructuring</u> IR2 Establish competition policy conducive to private sector development	interpretations/implementation guidelines 2 4 6 cases in YR1 2 and 6 10 cases in YR3 5 handled by the Competition Commission 3 4 public information programs per year conducted as a measure of competition advocacy 4 of trade related studies completed and disseminated	framework for fair trade practices and anti trust separate from anti dumping and consumer protection frameworks 2 2 Establishment of independent competition commission and secretariat with wider representation by public and private sector specialists and other stakeholders 2 3 Number of competition cases addressed by the competition commission (target: at least 4 p a in the 2007/08 2008/09 periods)	To monitor establishment of enabling policy and institutional environment for private sector development
<u>For Restructuring</u> IR3 Inform WTO Accession Task Force negotiation position	*There was no clear indicator for WTO accession*	3 1 Studies on Ethiopia WTO Accessions prepared disseminated to and discussed by WTO Task Force	To establish whether analytical work is used for policy discussions
Component Three: Strengthening the International Competitiveness of the Private Sector and the Capacities of its Representative Organizations <u>Results for BIZCAP</u> Increased firms ability to compete and stronger institutions supporting PSD <u>For Restructuring</u> IR4 Reduce barriers to private sector growth in firms and sectors with high export potential	1 Supported exporters increase their exports at a rate 25 percent higher than non supported firms 2 Supported domestic market suppliers increase their sales at a rate 25 percent higher than non supported firms 3 Supported chambers and associations increase their memberships (number of members) at a rate 25 percent higher than do non supported associations	4 1 Number of matching grant support given to private firms for export expansion; 4 2 At least 25% increase in the value of exports by beneficiary firms; 4 3 Number of sectors carrying out value chain improvements • Industry standards • Market information • Marketing and fairs • Skill at factory floor and management levels; 4 4 At least 25% growth in the value of exports in targeted sectors	To measure effectiveness of business plan competition model for increasing exports at firm and sector levels
<u>Result BIZPLAN</u> Increased number of private firms with established relationship	1 At least 250 eligible entrepreneurs apply to BIZPLAN competition in first year with at least 10 percent increase in	5 1 Number of start ups established through business plan competition each year (target 20 each in round 1 and 2)	To measure sustainability of business plan competition model in

with the private banks For Restructuring IR5 Reduce constraints to business start ups	number of eligible applicants annually	5 2 Proportion of start ups established through business plan competition that survive after one year in operation 70%; 5 3 Proportion of start ups established through business plan competition that survive after two years in operation (target 50%)	lowering barriers to entry in local markets
Results for SCHOOLCAP: Improved business management education For Restructuring IR6 Expand availability of business and economics skills in the economy	1 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 2 Resource Upgrade for Curriculum: 10 percent pa increase of Ethiopians in faculty qualified to teach at graduate level each year 3 National skills training: (i) At least 30 Ethiopians trained from at least five institutions every year; (ii) at least 20 percent increase in subscribers annually for the AAU Journal 4 25 students per year that completed each course on trade and competition policy	6 1 University (FBE) curriculum revised and adopted; 6 2 At least 20 Graduate in regulatory economics and international trade programs in year 3 6 3 At least 20 additional in regulatory economics and international trade programs in the 4th year	To measure business and economics schools throughput