



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 15-Aug-2016 | Report No: PIDISDSC18428



**BASIC INFORMATION**

**A. Basic Project Data**

Country Ethiopia	Project ID P160279	Parent Project ID (if any)	Project Name Ethiopia:National Quality Infrastructure Development Project (P160279)
Region AFRICA	Estimated Appraisal Date Dec 13, 2016	Estimated Board Date Mar 28, 2017	Practice Area (Lead) Trade & Competitiveness
Lending Instrument Investment Project Financing	Borrower(s) Ministry of Finance and Economic Cooperation	Implementing Agency Ministry of Science and Technology	

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**Financing (in USD Million)**

Financing Source	Amount
International Development Association (IDA)	50.00
<b>Total Project Cost</b>	<b>50.00</b>

Environmental Assessment Category  
B-Partial Assessment

Concept Review Decision  
Track II-The review did authorize the preparation to continue

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

Yes

Other Decision (as needed)

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**B. Introduction and Context**

Country Context

**Ethiopia is a large and diverse country.** It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million km<sup>2</sup>. Ethiopian population is estimated at 96.95 million, with annual population growth rate of 2.5 percent (2014)<sup>1</sup>. At this rate, Ethiopia’s population will reach 130 million by 2025, and the United Nations projects that it will become among the world’s top ten largest countries by 2050. Only about 18 percent of the population lives in urban centers.

<sup>1</sup> WDI based on UN population projection. According to the CSO, the midyear population estimate is 90.1 million in 2015.



**Ethiopia has experienced strong economic growth over the past decade that helped to reduce poverty substantially.** Real Growth Domestic Product (GDP) averaged 10.9 percent per year (8.0 percent per capita) during the period 2003/04-2014/15 according to official data, as compared to the Sub Saharan Africa average of 5.4 percent for the same period. On the supply side, growth was primarily concentrated in agriculture (mainly primary commodities<sup>2</sup>) and services, which are driven by an increase in financial intermediation, public administration, tourism, and retail trade, rather than the growth that was hoped for in industry, particularly manufacturing.<sup>3</sup> Private consumption and public investment explain demand side growth. As a result of economic growth and public investments in basic services, poverty headcount ratio at national poverty lines (US\$0.6 per day) has decreased from 38.9 percent (2004) to 29.6 percent (2011). World Bank (WB) estimates suggest that poverty has continued to fall since the latest survey in 2011.<sup>4</sup>

**Nevertheless challenges remain to sustain its growth.** When compared to other countries in the region, Ethiopia has one of the lowest participations of industry and manufacturing in GDP. Poverty is just as prevalent in Ethiopia's two largest cities (Addis Ababa and Dire Dawa) as in rural areas, and is strongly associated with unemployment. Poverty rates in the two cities are close to 30 percent and unemployment in the capital is 24 percent.<sup>5</sup> In addition, while the poorest 40 percent tend to be likely to live in rural areas and engage in agriculture, the elderly and female-headed-households are particularly vulnerable in urban areas due to weaker informal safety nets.<sup>6</sup>

**The Government of Ethiopia (GoE) is currently implementing the second phase of the Growth and Transformation Plan (GTP II).** GTP II sets out an ambitious development vision that seeks to turn Ethiopia into a middle-income country by 2025, with an average growth rate of 11 percent per year during the implementation period (2015/16 to 2019/20) underpinned by robust growth of manufacturing output and export. During the early stages of industrial development, because of the potential for higher productivity in the manufacturing sector and the manufacturing sector's utilization of predominantly unskilled and semi-skilled labor, the movement from agriculture to manufacturing tends to benefit the poor. By focusing on improving production, productivity and quality of manufacturing output<sup>7</sup>, GoE aims to increase manufacturing jobs on average by 15 percent annually from 380,000 in 2014/15 to 758,000 by 2019/20. In this regard, women and youths will be the primary beneficiaries of the job opportunities to be created. To achieve the vision envisaged in the GTP II, GoE has developed a set of strategies focusing on infrastructure development, skills development, productivity increase and competitiveness of the private sector, particularly in manufacturing.

<sup>2</sup> Primary commodities include food and live animals, beverages and tobacco, animal and vegetable oils and waxes, excluding manufactured goods.

<sup>3</sup> Agriculture accounts for most jobs and about 40 percent of output and exports. Services accounts for close to half of output and half of exports. Manufacturing shares of output, jobs and exports have remained stagnant at around five percent. Manufacturing is dominated by the food, beverages, leather, textiles, and apparel industries. GTP II targets 8 percent of GDP in manufacturing.

<sup>4</sup> Ethiopia Systematic Country Diagnostic (WB 2016)

<sup>5</sup> Ibid.

<sup>6</sup> Also, Ethiopia's 2014 employment report issued by the Central Statistics Agency shows that the unemployment rate of female in 16 major towns is about 14 points higher than those of male in 16 major towns. The unemployment rate of these towns stands at average 20.7 percent, split between males and females, 13.8 percent and 28.0 percent, respectively.

<sup>7</sup> GTP II has identified 7 manufacturing industries, as priority sectors: (i) Textile and Garment; (ii) Leather and Leather Products; (iii) Metal and Engineering; (iv) Meat, Milk and Honey; (v) Chemical and Construction Inputs; (vi) Agro-processing; and (vii) Pharmaceutical.



Sectoral and Institutional Context

**To support rapid economic development underpinned by strong growth of manufacturing, the delivery of quality and standardized products and services to local and international markets is critical.** Ethiopia's private sector faces a formidable array of challenges to increase its competitiveness. Over and above the constraints on trade logistics, access to finance and industrial land, one of the major stumbling blocks is the attainment of the quality and standards of products and services demanded by global trading partners and customers. Certain quality standards allow trading partners and consumers to assess the quality of goods and services before purchasing them and put pressure on producers to comply with requirements.

**GoE's Science, Technology, and Innovation Policy points out a failure to meet the quality standards as one of the major issues prevailing in most of local manufacturing and service providing enterprises in Ethiopia.** For example, the export revenue from leather and leather products saw a record low decline during the last nine months of 2014/15 fiscal year. While the government's plan was to obtain US\$129 million, only 66.8 percent was achieved. According to the Leather Industry Development Institute, poor quality of raw materials coupled with global market slump were main causes behind the significant reduction in revenue. A study on the national cost of quality in Ethiopia's export and import products conducted by Addis Ababa University (2015) shows that about US\$272 million are lost every year due to quality compliance issues.<sup>8</sup>

**Recognizing the importance of quality assurance, GoE has embarked on a reform agenda to upgrade Ethiopia's National Quality Infrastructure (NQI)** to deploy appropriate production technologies and other value addition processes to ensure that all goods and services for international and domestic markets meet the required quality, environment, health and safety standards. NQI is defined as the institutional framework that establishes and implements the practice of standardization, including conformity assessment services, metrology, and accreditation.<sup>9</sup>

**One of the major reforms undertaken in February 2011 was to re-organize the former Quality and Standards Authority of Ethiopia into four separate NQI institutions,** responsible for the fields of metrology, standards, accreditation, and conformity assessment, to ensure good governance, create institutions free from conflicts of interest<sup>10</sup>, and increase competition which leads to rent-seeking behavior, and to be aligned with the international practice. These NQI institutions: National Metrology Institute of Ethiopia (NMIE); Ethiopian Standards Agency (ESA); Ethiopian National Accreditation Office (ENAO); and Ethiopian Conformity Assessment Enterprise (ECAE) have been established as legally autonomous institutions under the Ministry of Science and Technology (MoST). Also, GoE has created a separate

<sup>8</sup> Several studies identify that significant costs incurred to each Ethiopian exporter are compensation claims by importers related to weight loss, insufficient hygienic condition, inappropriate labelling, etc. For example, a case study revealed that one of the coffee exporters has paid US\$45,000 weight compensation cost for the export in year 2005. For flower industries the compensation cost includes damage claim cost in addition to high handling cost (almost 10-20 percent of the production cost).

<sup>9</sup> The innovation policy platform, Christine Tippman (WB 2013)

<sup>10</sup> Quality and Standards Authority of Ethiopia was responsible for the development and approval of standards, product certification, inspection of producers, market surveillance, and consumer protection. Because the entire process is completely controlled by one organization, the overlap of commercial and regulatory functions and the discretionary powers of the organization to control the certification market creates considerable risk of conflicts of interest.



regulatory function within the Ministry of Trade (MoT) to enforce and coordinate technical regulation activities with responsible line ministries.<sup>11</sup>

**Despite efforts by the Government, Ethiopia’s NQI institutions have not yet developed to their full potential of meeting the emerging demands of industry and consumers.** With a technical assistance provided by German Corporation for International Cooperation (GIZ) funded through the European Union (EU) during 2009 – 2015, Ethiopia’s NQI has shown some progress with the establishment of the four NQI institutions and in setting up the system to provide international certificates and products and services standards. However, Ethiopia’s NQI fails short of meeting the increasing demand from industries and suffers from weaknesses that hinder promoting and strengthening the use of NQI services among the private sector as tools to increase their competitiveness. These weaknesses include: (i) capacity of service delivery of existing NQI institutions; (ii) lack of consultation on NQI service development with industries; (iii) low level of awareness on the NQI services among the private sector and local consumers; (iv) inadequate incentives for industries to comply with quality standards; (v) lack of private NQI service providers; (vi) weak coordination and collaboration in the implementation of technical regulations among the regulatory agencies and NQI institutions.

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Relationship to CPF

**The World Bank Group’s Country Partnership Strategy (CPS, FY13-16) builds on the progress achieved by Ethiopia in recent years and aims to help GoE address structural transformation and support the implementation of the GTP.** The current CPS framework includes two pillars. Pillar 1, “Fostering competitiveness and employment”, aims to support Ethiopia in achieving: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar 2, “Enhancing resilience and reducing vulnerabilities”, aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar 1.

**The proposed NQI Development project is well anchored within CPS Pillar 1 and the Regional Strategy for Africa.** The project would contribute to the development and growth of the manufacturing sector, and its global competitiveness by supporting the upgrading of Quality and Standard system in Ethiopia. The project would also contribute to improved trade both regionally and globally.

<sup>11</sup> This is also in line with good practices, as technical regulations are developed by government and often by designated regulatory agencies under ministries.



### C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve the delivery of quality assurance services to enterprises by strengthening Ethiopia's national quality infrastructure.

Key Results (From PCN)

**To measure the results and achievements of the project towards the PDO, the proposed outcome indicators are:**

- 1) No. of enterprises which benefit from improved quality assurance services.
- 2) No. of public and private laboratories properly accredited.
- 3) Reduction of average cost of accreditation, testing and certification to enterprises.
- 4) Reduction in percentage of rejects by importing countries due to quality assurance issues.

**The Intermediate indicators may include:**

- 1) No. of trained technical professional staff of NQI institutions.
- 2) No. of new services introduced.
- 3) No. of Public-Private Sector Dialogue held on quality assurance services related topics.
- 4) No. of Period survey carried out to measure user/ consumer satisfaction.
- 5) No. of Communication campaign, media and outreach programs to create awareness about NQI.
- 6) No. of laboratories, which upgraded their testing capabilities.

### D. Concept Description

**The main development challenges in NQI in Ethiopia are lack of capacity to provide quality and standards services, poor product differentiations, inability to meet target market standards, poor protection of public good elements and prohibitive costs of compliance with international standards.** While the project will not be able to address all the challenges, it aims to focus the key interventions to improve the delivery of NQI services to contribute to the country's export focused manufacturing led development strategy as long-term objectives. The interventions will include, among others, developing the NQI institutions for international accreditation and mutual recognition with target markets, streamlining technical regulations and voluntary standards, building product traceability systems, enhancing the capacity for technical regulations and inspections, assessment of demand for NQI services and creating awareness about NQI services.

**To address the main development challenges, the proposed project is designed to strengthen NQI in Ethiopia in line with international standards and best practice.** The project is structured around three interconnected components: (i) Component 1: Support to Institutional and Regulatory Development; (ii) Component 2: Support to Private Sector Engagement; and (iii) Component 3: Project Management and Monitoring and Evaluation. Addressing different gaps in the supply and demand side of the NQI services, each component will leverage the inputs and outputs of other project components to ensure that the development objective of the project is realized in an integrated manner.





**Component 1: Strengthening Institutional Capacity** - The objective of this component is to strengthen NQI institutions' capacity to deliver the demanded services to enterprises. This component will focus on two main areas of interventions: (i) supporting the development of human and technical capacity of NQI institutions; and (ii) much-needed upgrading of service facilities. By doing so, the component will provide support for the ESA to act as the national standards enquiry point, improve the NMIE's calibration services to support businesses, strengthen the capacity of the ENAO to provide accreditation services, strengthen the ECAE for providing inspection, testing, and certification services and strengthen the technical regulation and inspection capacity at the Ministry of Trade. This integrated approach will ensure conformance of goods and services to international standards and technical regulations, and enhance Ethiopia's capacity in harmonization and development of standards and technical regulations at international level in areas of strategic importance.

**Component 2: Enhancing Private Sector Engagement** - The objective of this component is to support the private sector to conform to set standards and to comply with technical regulations. This component will have two main sets of interventions: (i) support to increase the demand from the private sector for NQI services where public-private dialogue on NQI topics would be one medium; and (ii) support to private sector enterprises and associations involved in providing quality assurance services. The component will create awareness in the business community to conform to the required standards, strengthen the capacity of private sector players, sensitize consumers and users about the attributes of quality and compliance with standards and international codes, and adopt quality management systems in their operations.

**Component 3: Project Management and Monitoring and Evaluation** - This component will aim to ensure efficient and effective implementation of the project. Support will be provided to MoST and its Project Management Unit (PMU) to strengthen its capacity and increase human resources required for the project implementation. Given the various entities involved in this project, the MoST is expected to oversee the implementation of the project with the PMU set up within MoST.

**Citizens' engagement.** As the project will support interventions to engage the private sector and consumers, the project management will implement feedback mechanism from the public private dialogue (PPD) forums and carry out surveys with users and consumers to measure the effectiveness and impacts of the project interventions towards the achievement of the PDO. Media and community awareness campaign will be carried out to develop and increase the "quality assurance culture" in the country. Specific indicator is included as part of the results framework to track the feedback from consumers and private sector enterprises.

**Gender impact.** The MoST has developed a draft gender action plan for the project interventions. The action plan will be further developed and strengthened in consultation with the WBG gender specialists during project preparation. While the detailed gender specific interventions will be based on the action plan, the project intends to support gender impact analysis of existing and upcoming policies and strategies, gender responsiveness of the infrastructure and facilities of the NQI institutions, include gender balance criteria when selecting candidates for capacity building activities as much as possible; and ensure media and awareness creation campaigns are designed in a more inclusive manner. In particular, given the general indication that women in Ethiopia are not active participants in quality and standards ecosystem, the project will introduce beneficiary interventions that will specifically target women to increase their participation and engagement. This will be tracked as part of the citizen engagement indicator with specific sub-target focusing on women.



**SAFEGUARDS**

**A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The Project will be implemented in Addis Ababa. The beneficiary institutions are within Addis Ababa and the project is not expect to finance new facilities and land acquisitions. As such, no resettlement of communities is expected.

However, as part of the upgrading of the Quality and Standard system, the project may support renovation/ refurbishment of existing facilities such as laboratories as well as procurement of specialized laboratory and testing equipment. Due to the specialized nature of the equipment and their potential environmental impact in terms of waste, radiation, etc., the project will fall under Category B of safeguard risks and the World Bank Group Policy, OP 4.01 "Environmental Assessment" will be applied.

**B. Borrower’s Institutional Capacity for Safeguard Policies**

The Ministry of Science and Technology has not implemented a World Bank Project for a while, and its capacity to implement WBG safeguard policies is not strong.

**C. Environmental and Social Safeguards Specialists on the Team**

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	Only one safeguards policy, Environmental Assessment (OP/BP 4.01) is triggered in this project and the project is categorized as a B, since it might generate small and site-specific less adverse environmental impacts associated with civil works, through the rehabilitation of lab facilities, office buildings, landscaping and fencing of the structures. There will be no land acquisition and or loss of, and/or access to sources of livelihood, since all interventions are site specific and will occur on existing structures. Accordingly, government will prepare and consult on an Environmental and Social Management Framework (ESMF). The ESMF will be disclosed in country and at the infoshop prior to project appraisal. If any activities included in any Annual Work Plan would require the preparation of an environmental and social assessment or environmental management plan, the government

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shall ensure that no such activities shall commence unless approved by the World Bank.

Natural Habitats OP/BP 4.04	No
Forests OP/BP 4.36	No
Pest Management OP 4.09	No
Physical Cultural Resources OP/BP 4.11	No
Indigenous Peoples OP/BP 4.10	No
Involuntary Resettlement OP/BP 4.12	No
Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

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**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Nov 15, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The project would include a site-specific civil work with less adverse environmental impacts through the rehabilitation of lab facilities, office buildings, landscaping and fencing of the structures. Between pre-appraisal in August and the end of October, the Bank's team, including safeguards specialist will visit the location and review the laboratory equipment to be purchased through the project.

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**APPROVAL**

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