2.2. Lessons learnt

This programme is to provide support through the ongoing "Engineering Capacity Building Program" (ECBP), for a period of 2 years. ECBP is a national programme structurally embedded in and guided through the Ministry of Capacity Building (MoCB), implemented jointly between MoCB and GTZ. ECBP incorporates four reform components: (i) university education, (ii) vocational training, (iii) quality standards and infrastructure, (iv) private sector and business. The private sector and business component of ECBP has become the lead area of intervention. Up to now, GTZ coordinated the contribution of 8 German organisations to ECBP (KfW, DED, SEQUA, PTB, DAAD, InWENT, DVV). The programme is implemented in a joint management approach of MoCB and GTZ under the strategic leadership of the State Minister of Education who reports directly to the Minister of Capacity Building.

The ECBP has been jointly financed by the Ethiopian and German Government and will be implemented over a period of nine years and 8 months (2005 until 2015) in phases each lasting about three years. The ambitious economic change agenda is outlined in an ECBP Roadmap and a Five Year Strategic Plan 2006 – 2010 aiming at accelerated industrial development according to PASDEP and the strategies of the country (industrial strategy, TVET strategy) and the improvement of local conditions for private sector development. This approach has been developed based on consultations with all relevant and different public, private and donor organisations operational in Ethiopia.

Following the experience of the first phase (2005-2008), and consecutive internal and external evaluation exercises, detailed action plans for the sectors and sub-sectors (altogether 13) have been elaborated in 2008/09 and verified with the main stakeholder groups. In this context, sector master plans by the Ministry of Trade and Industry, which guide the respective sector policies, were taken into account, aligned and, if not existent, supported to be developed (Metal, Chemical and Pharmaceutical).

To note that during the implementation of Phase I of ECBP's Private Sector Development component, a monitoring and evaluation system has been established which will be adjusted according to the M& E requirements of EU.

2.3. Complementary actions

This action is complementary with previous and ongoing EC projects in this field such as the 7th EDF Micro- and Small Enterprises Development Programme (MSEDPS) 2001-2005 and the 9th EDF Trade Capacity Building (TCB) programme 2006-2010. ECBP complements the Private Sector Loan Facility made available by the European Investment Bank (EIB) through the Development Bank of Ethiopia (DBE) as well as the EU Delegation’s Road Sector Policy Support Programme (SPSP) and the Agricultural Marketing and Livestock Development projects (both presented in the AAP 2009) – all helping to create an improved environment for private sector development and export growth. The project will work closely with CDE (through their local antenna) and will also look at possible complementarities with the COMESA Investment Promotion Agency and with planned IGAD activities regarding investment promotion (as put down in the IGAD Minimum Integration Plan).

2.4. Donor coordination

The development partners set up a Donor Assistance Group (DAG) under which they seek to co-ordinate their assistance to the Government of Ethiopia and share information on on-going and planned activities and support. The DAG is a Head of Agency level committee and is supported by a number of Thematic Working Groups, including one for Private Sector
Development and Trade which meets monthly and which created sub-groups including on value chain development, private-public dialogue, financial services and intermediary organisations. Donor agencies active in this group are the EU Delegation, GTZ/KfW, IT Development Co-operation, JIKA, NL Embassy, SIDA, UNDP/UNIDO, USAID and the World Bank.

3. DESCRIPTION

3.1. Objectives

The general objective of the proposed project is to increase the level of competitiveness of Ethiopia’s private sector and to assist the Government in its efforts to maintain high economic growth rates, accelerate industrial development and trade and to facilitate the country’s integration into the regional and world economy.

The programme's purpose is to develop the capacity of private companies, private sector intermediary organisations and public service bodies in order to enhance the business and export growth opportunities in the selected priority sectors.

Strategically, the project follows a multi-level approach on Macro, Meso and Micro level, by combining direct support to the private sector in the priority areas of ECBP, mostly through targeted technical assistance, with support to intermediary organisations and key government bodies such as the newly organized National Quality Infrastructure Institutions (National Standard Body, the Ethiopian National Metrology Institute and the Conformity Assessment Body). The aim of this approach is to lead to structural change and to tackle barriers to doing-business and trade and enhancing productivity and exports in a sustainable way. Cross cutting issues like gender equality, good governance and human rights considerations are an integral and vital part of ECBP.

3.2. Expected results and main activities

For increasing exports, business relationships between Ethiopian companies and international customers will be established. Furthermore project interventions will lead to more investments and to technology transfers from international investors. To bring Ethiopian companies to qualify as international business partners and achieve "quick wins", significant direct interventions and consultancies in companies in the selected priority sectors will take place with the aim of increasing quality and productivity. Project intervention will link MSME on the value chain to lead firms, thus reducing the lead firms’ supply challenge and supporting MSME to upgrade their products and integrate into a more dynamic economy. With regards to the selection criteria, all exporting companies from the two main priority sectors (leather and textiles) will be targeted under the programme (these are about 60 companies). Regarding the other priority sectors of ECBP (agro-processing, pharmaceuticals, metal and construction) the programme will select pilot companies, based on a list of criteria, including productivity, business plan and sector potential.

The capacity of sector associations will be strengthened which will increase the networking and collaboration amongst companies. The advocacy role of associations towards government and international markets will be strengthened and relevant business development services will be upgraded.

Sector support institutions will be strengthened so as to provide services at international standard. This will inter alia be achieved through a twinning arrangement with an European similar institution. In order to enable Ethiopian products to be price competitive and reliable,
in terms of supply time, the project will have reduced the import and export costs (in days and costs) by providing specific support and consultancy to the customs authority and the transport sector. Note should be taken that this support will feed into an ongoing, wider reform process of the customs an authority which is supported through a comprehensive multi-donor programme for Public Sector Capacity Building (PSCAP).

The following results are foreseen:

1. **Improved capacity in lead firms** of the priority sector through re engineering. A key indicator will be the level in the company-based benchmark analysis undertaken by ECBP/MoTI.
2. Improved **information sharing** on investment opportunities and export markets. A key indicator will be number and volume of business relationships between Ethiopian and European customers.
3. More **business relationships between European and Ethiopian companies** in the priority sector through matchmaking. (Indicator: see above)
4. Significantly **reduced time and cost for customs procedure and transport**. A key indicator will be efficiency gains in terms of timing and costs per transaction.
5. Priority sector **support and research institutions** provide better and adequate service to companies active in Ethiopia. A key indicator will be the number of services delivered to the private sector.
6. Enhanced **competitiveness of Small and Medium Enterprises** (MSMEs) through linkages and more integration into value chains. A key indicator will be an increased share of SMEs contributions in the selected value chains.
7. Improved capacity in terms of **business support services** and analysis of market. A key indicator will be the numbers of paying members of the supported associations.
8. Removal of Sector specific bottlenecks through **policy adjustment** and improved implementation. A key indicator will be the frequency and the outcome of Public-Private Forum meetings.
9. Strengthening the **physical and institutional capacity of the newly established quality infrastructure organisations** (Ethiopian Metrology Institute in the field if decentralized weight bridge calibration; Conformity Assessment Body in the field of laboratory services). A key indicator will be the establishment and degree of utilisation of the services offered by the organisations.
10. Completion of the **reorganization of the National Standardization Body** (NSB) incl. raising the capacity of the staff, representation of stakeholder groups in standard setting and connection of the NSB to the respective international institutions. A key indicator will be the number of participation and contribution to international technical committees.

The activities will contribute to these results and will notably include:

- Long-term and short-term Technical Assistance to private sector intermediary organisations, public services bodies and companies in the priority sectors;
- Training courses and coaching for private stakeholders in management, product development, marketing and technical skills through long-term and short term experts; Seminars and workshops on investment opportunities, export markets.
- Organisation of international Trade Fairs in Ethiopia, international Trade Fair visits, Delegation trips and PR activities in Europe.
• Capacity building for Ethiopian Investment Promotion Agencies and network-building with regional IPAs
• Twinning arrangements with one Ethiopian sector institution (long-term experts, short term experts, trainings);
• In coordination with other donors, improving service delivery of public authorities and improving regulatory environment As a major bottleneck of all exporting sectors, customs procedures and cost will be eased through capacity development and software solutions and transport costs will be reduced through policy adjustments.
• Establish linkage projects and input upgrading projects with MSMEs and lead companies in the priority sectors;
• Support to quality infrastructure bodies including physical capacity building in the newly established Ethiopian Metrology Institute Chemical Reference Laboratory supporting all sectors, Microbiology laboratories in regions and
• Upgrading of the new Ethiopian National Standards Body through a Twinning arrangement with a European leading institution (e.g. DIN) to help reforming the legal and institutional setup.

3.3. Risks and assumptions
ECBP is a complex and comprehensive operation, requiring highly specialized skills both for managing and coordinating the various inputs of both national and international actors. Though there is an overall agreement on the need for institutional change, ECBP should carefully monitor the implementing capacities of the major stakeholders in view of avoiding disappointments as a result of overstretching the management capacities of stakeholders, in particular with regard to the absorption of a large number of foreign experts.

Risks

*Complexity*: The ECBP is a broad-based, complex and comprehensive programme which involves many institutions and individuals both on the Ethiopian and German side. It calls for extensive managerial and coordination efforts.

*Transfer of Capacity*: There might be resistance to change and delays in implementing those newly transferred capacities. Furthermore, the one who transfers the capacity building may not have the efficiency and capability required for this process.

*Institutional Change*: Economic impact on the planned scale cannot be accomplished without institutional change on federal, regional and woreda levels.

*Absorption Capacity*: The involved institutions are not prepared to absorb the provided personnel and/or to integrate the expertise offered.

*Financial Mechanism and Procurement*: Swift procurement cannot be guaranteed without the establishment of a highly autonomous financial mechanism.

*Regionalization*: Regionalization of ECBP can be ensured by integrating ECBP interventions in regional development programmes.

*Autonomy*: In order to fully realize its mission ECBP requires flexible and rapid operational mechanisms (e.g. for procurement, recruitment, reasonable adjustment of salary levels etc.) and a high degree of autonomy in decision-making.

Given the complexity and broad-based nature of the programme, a Memorandum of Understanding between the main stakeholders (Ministry of Capacity Building, NAO office, GTZ and EU Delegation) will guide day-to-day implementation modalities and monitoring (which will be conducted with special emphasis on the risks mentioned above).

Assumptions
**Flexibility**: Sufficient flexibility is required to adjust to upcoming needs.

**Inter-linkages**: Inter-linkages are to be established on various levels outside the direct control of the programme.

**Multi-Donor Support**: Other donors will support the ECBP efforts.

**Sustainability**
PSDT is designed in such a way that at the end of the implementation period, an appropriate and functioning organisational and institutional structure will be in place which will allow the Government to further develop its private sector support policy, while the increased competitiveness level will allow the private sector to contribute its fair share to the export development efforts of the country.

### 3.4 Cross-cutting Issues

**Gender equality**: ECBP will put special emphasis to increasing the involvement of women in private sector activities and engineering fields while reforming the four programme components. The topic of gender must be integrated into top management meetings, gender competence must be adequately considered in the personnel selection process, indicators for achievement of gender targets including timelines and responsibilities must be formulated and gender must be reflected in reporting and publications.

**HIV/AIDS**: In the Ethiopian Strategic Plan (2004-2008) for intensifying multi-sectoral HIV/AIDS responses, mainstreaming is mentioned as one of the strategic aspects. “Leadership and mainstreaming should be considered as a critical strategic issue to be promptly addressed”. ECBP will take this issue into account when working with businesses on upgrading their personnel policies and enhancing productivity.

**Environment**: ECBP actions in the field of environment and development will address both interests and needs of the population and the industries. To achieve sustainable development and a higher quality of life for all people, ECBP supports the notion to reduce and eliminate unsustainable patterns of production and consumption. ECBP intends to facilitate and encourage public awareness and participation by making information widely available on environmentally hazardous practices. Environmental impact assessments shall be undertaken for proposed activities that are likely to have a significant adverse impact on the environment.

**Good Governance**: At policy level ECBP aims to develop the capacity of the government and the private sector in jointly strategizing national development to contribute to an enabling environment as well the capacity at institutional and individual level. This includes enhancing the dialogue between public and private stakeholders strengthening the cooperation between various government-, business-, municipal-, and civil-society actors in the provision and distribution of public goods, and hence ensures consensus building amongst all relevant stakeholders with regards to national and regional policy formulation.

### 3.5 Stakeholders

The principal Ethiopian stakeholders involved with ECBP include the following:

Authorities involved include such as the Ministry and Regional Bureaus of Capacity Building; the Ministry and Regional Bureaus of Trade and Industry; the Ministry of Agriculture and Rural Development. As ECBP is a Government-led programme, the active participation and promoting role of the above institutions is key to its success.
Institutions such as the Chambers of Commerce and sector associations and professional associations; the Quality and Standards Authority of Ethiopia (QSAE); the Customs Authorities; public and private higher learning institutions (universities and TVET institutions), regional Micro and Small Enterprise Development Agencies (ReMSEDAs). These bodies will take the role both of beneficiaries and of contributing agencies for the development of private sector in the country.

The German implementing agencies: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, the lead agency for contributions to ECBP; Kreditanstalt für Wiederaufbau (KfW); Centrum für internationale Migration und Entwicklung (CIM); Deutscher Akademischer Austauschdienst (DAAD); Deutscher Entwicklungsdienst (DED) SEQUA; Seniorexperten-Service (SES); Internationale Weiterbildung und Entwicklung (InWEnt); Physikalisch-Technische Bundesanstalt (PTB)

Other donors involved in the programme include such as the SIDA, NL Cooperation, Italian Cooperation, World Bank, JIKA, USAID, UNDP, etc.

Many of the principal stakeholders are well-established public institutions with clearly defined responsibilities. These have adequate organizational structures for efficiently accomplishing their duties and responsibilities. The regional Capacity Building Bureaus are considered to have the necessary human and organizational resources to oversee the successful implementation of planned interventions. This notwithstanding, the implementation of the ECBP is based on a set of risks and assumptions (see above) which need to be observed carefully and, if applicable, should be followed up by respective activities.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The implementation of the PSDT project will take place in the framework of the management and implementation of ECBP, which is jointly managed by the MoCB and GTZ (commissioned by the German Ministry for Economic Cooperation – BMZ) under the guidance of the State Minister of Education.

The tasks of implementing the PSDT Programme have been delegated by the European Union to the Deutsche Gesellschaft für technische Zusammenarbeit (GTZ GmbH).

The Financing Agreement between the European Union and the Government of Ethiopia foresees this delegation of tasks, which will be laid down in a Delegation Agreement between the European Union and GTZ. GTZ has been chosen as it has been entrusted by the Government to co-ordinate the ECBP and lead as such the government's approach to private sector development in the country.

A Memorandum of Understanding will be signed between the stakeholder – the Ministry of Capacity Building, GTZ, the Ministry of Finance and Economic Development and the EU Delegation, steering day-to-day cooperation and monitoring.

A steering committee shall be set up to oversee and validate the overall direction and policy of the project. The project steering committee shall meet at least twice a year. In terms of organisation, the committee can meet back-to-back with existing supervisory bodies, such as the Advisory Council, which is chaired by the Ministry of Capacity Building.
4.2. **Procurement and grant award procedures**

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by GTZ.

The contracts implementing the action according to EC procedures (Evaluation and verification) must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of these contracts for the present action shall be open to all natural and legal persons covered by the Financial Regulation of the 10th EDF. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in 20 of Annex IV of the Cotonou Agreement.

4.3. **Budget and calendar**

The total project cost is estimated at EUR 19,162,000, of which 11 million shall be financed from the NIP/EDF, about EUR 3,912,000 by the Government of Ethiopia and EUR 4,250,000 by the German BMZ/GTZ.

*The costs of the programme are presented in the following table.*

<table>
<thead>
<tr>
<th>Categories</th>
<th>EU contribution (10th EDF)</th>
<th>Government contribution</th>
<th>BMZ / GTZ</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
</tr>
<tr>
<td>Delegation Agreement</td>
<td>10,476,190</td>
<td>3,912,000</td>
<td>4,250,000</td>
<td>18,638,190</td>
</tr>
<tr>
<td>Contingency Reserve</td>
<td>343,810</td>
<td></td>
<td></td>
<td>343,810</td>
</tr>
<tr>
<td>Evaluation and Verification</td>
<td>180,000</td>
<td></td>
<td></td>
<td>180,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>11,000,000</strong></td>
<td><strong>3,912,000</strong></td>
<td><strong>4,250,000</strong></td>
<td><strong>19,162,000</strong></td>
</tr>
</tbody>
</table>

The operational implementation phase starts from the entry into force of the financing agreement and will have duration of 36 months.

4.4. **Performance monitoring**

The EU in close collaboration with pertinent stakeholders will monitor the programme performance, from the design stage through to the final evaluation, against the objectives and indicators specified in the Financing Agreement and the Logical Framework (see Attachment 1 of the TAPs). A MoU between the main stakeholders will define explicitly how the monitoring and evaluation of the programme will be undertaken.

Independent consultants recruited directly by the Union on specifically established terms of reference will carry out external monitoring ROM system, which in principle will start from the sixth month of project activities, and will be finalised at the latest 6 months before the end.
of the operational implementation phase. Also, the EU Delegation, NAO and the implementing partner will regularly monitor the project using the Joint Result Oriented Monitoring System (JROM) of the Delegation.

4.5. Evaluation and audit

Independent consultants recruited directly by the Union on specifically established terms of reference will carry out external evaluations, as follows:

A final evaluation, at the beginning of the closing phase: The Beneficiary and the Union shall analyse the conclusions and recommendations of the final evaluation and jointly decide on the follow-up action to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. The reports of the other evaluation and monitoring missions will be given to the Beneficiary, in order to take into account any recommendations that may result from such missions.

The Union shall inform the Beneficiary at least three months in advance of the dates foreseen for the external missions. The Beneficiary shall collaborate efficiently and effectively with the monitoring and/or evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

An external audit could also be launched by the EU at the end of the two years operations.

4.6. Communication and visibility

Visibility will be promoted in particular through the seminars and workshops on investment or other related subjects. A framework and timeline for these events will be prepared jointly with the Government and GTZ. An appendix that confirms the satisfactory management procedures and structures of the GTZ is attached as required under Article 26 of the 10th EDF Financial Regulation.