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Report No: 47613-ET

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 23.6 MILLION
(US\$35.00 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR AN

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

JUNE 5, 2009

Finance and Private Sector Development
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2009)

Currency Unit = Ethiopian Birr (ETB)

11.24 ETB = US\$ 1

US\$ 1.488 = SDR 1

GOVERNMENT FISCAL YEAR

July 8 – July 7

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Lending
ASC	Audit Services Corporation
CAS	Country Assistance Strategy
CHP	Cultural Heritage Project
CSO	Civil Society Organization
DPL	Development Policy Lending
ESMF	Environmental and Social Management Framework
ESTDP	Ethiopian Sustainable Tourism Development Project
FM	Financial Management
FMR	Financial Management Report
FMS	Financial Management Specialist
GoE	Government of Ethiopia
GTZ	German Technical Cooperation
IDA	International Development Association
IFC	International Finance Corporation
IFR	Interim Financial Report
LIL	Learning and Innovation Loan
M&E	Monitoring and Evaluation
MGS	Matching Grant Scheme
MoCT	Ministry of Culture and Tourism
MoFED	Ministry of Finance and Economic Development
MPO	Marketplace Operator
MSME	Micro, Small and Medium Enterprise
ODI	Overseas Development Institute
OFAG	Office of the Federal Auditor General
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBS	Protection of Basic Services
PCU	Project Coordination Unit
PFM	Public Financial Management
PIM	Project Implementation Manual
PIP	Project Implementation Plan
PPF	Project Preparation Facility

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PSC	Project Steering Committee
PSNP	Productive Safety Net Project
RPF	Resettlement Policy Framework
RAP	Resettlement Action Plan
SME	Small and Medium Enterprise
SNV	Netherlands Development Organization
SIL	Sector Investment Loan
SMU	Site Management Unit
SNNPR	Southern Nations and Nationalities People's Region
SOE	Statement of Expenditures
STEP	Sustainable Tourism for Eliminating Poverty
TOR	Terms of Reference
TSA	Tourism Satellite Account
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
VCA	Value Chain Analysis
WTTC	World Travel and Tourism Council

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Country Director:	Kenichi Ohashi
Sector Manager:	Gerardo M. Corrochano
Task Team Leader:	Francois Nankobogo

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ETHIOPIA
Ethiopia Sustainable Tourism Development Project

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ETHIOPIA

ETHIOPIA - TOURISM DEVELOPMENT PROJECT

PROJECT APPRAISAL DOCUMENT

AFRICA - AFTFP

<p>Date: June 4, 2009</p> <p>Country Director: Kenichi Ohashi</p> <p>Sector Manager/Director: Gerardo M. Corrochano/Marilou J. Uy</p> <p>Project ID: P098132</p> <p>Lending Instrument: Specific Investment Loan</p>	<p>Team Leader: Francois Nankobogo</p> <p>Sectors: Other domestic and international trade (100%)</p> <p>Themes: Other trade and integration (P);Export development and competitiveness (S);Other financial and private sector development (S)</p> <p>Environmental screening category: Partial Assessment</p>
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Project Financing Data

[] Loan [X] Credit [] Grant [] Guarantee [] Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 35.00

Proposed terms: Standard, with 40 years maturity including a 10 year grace period.

Financing Plan (US\$ US\$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	4.50	0.00	4.50
International Development Association (IDA)	22.10	12.90	35.00
Total:	26.60	12.90	39.50

Borrower:

Ministry of Finance and Economic Development

P.O. Box 1905

Addis Ababa, Ethiopia

Tel: 251-11-522-6698 / Fax: 251-11-555-1355

Responsible Agency:

Ministry of Culture and Tourism

P.O.Box 1907

Addis Ababa, Ethiopia

Tel: 251-11-551-7020 / 553-7361 Fax: 251-11-551-2889

tour.com@telecom.net.et

Estimated disbursements (Bank FY/US\$ US\$m)									
FY	10	11	12	13	14	15			
Annual	3.00	6.00	7.00	8.00	7.00	4.00			
Cumulative	3.00	9.00	16.00	24.00	31.00	35.00			

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The project development objective is to contribute to enhancement of the quality and variety of tourism products and services in targeted destinations so as to increase the volume of tourism, foreign exchange earnings, and jobs.

It is expected that the implementation of the project will yield the following key outcomes in key destinations: (i) an increase of annual international visitors; (ii) increased average spending by visitors translating into higher foreign exchange earnings; and (iii) an increased number of direct and indirect tourism-related jobs.

Project description *Ref. PAD II, Technical Annex 4*

The project will have four components: (i) destination development, focused on the tourism product which entails two aspects (the quality of the cultural experience, both tangible and intangible, and, the quality and variety of the supporting supply-side service providers); (ii) market development, (iii) institutional development and capacity building, and (iv) implementation support and results monitoring.

The project focuses on three major destinations, Lalibela, Axum and Addis Ababa while addressing some areas of development for other destinations. Its main objective is to demonstrate what a well developed destination can bring to the tourism sector not only through the increased income and jobs it can create, but also the learning effect for other destinations. It is hoped that both the public and private sectors will gain useful lessons and replicate the development experience in other destinations.

Which safeguard policies are triggered, if any? *Ref. PAD IV.F., Technical Annex 10*

The project has triggered OP 4.01 Environmental Assessment; OP 4.11 Physical Cultural

Resources; and OP 4.12 Involuntary Resettlement due to civil works that are required to enhance selected sites.

Significant, non-standard conditions, **if any**, for:

Board presentation: None.

Loan/Credit effectiveness:

- establishment of Project implementing entities with functions, composition and resources satisfactory to the Association: (i) Project Coordination Unit, comprised of key staff recruited on a competitive basis including a Project coordinator, a financial management officer, a procurement officer and an assistant procurement officer, a monitoring and evaluation specialist, a civil engineer, a resettlement specialist, and an administrative assistant; (ii) Site Management Units, for each of the three targeted Project sites (Lalibela, Axum and Addis Ababa), which shall include an implementation officer and an accountant; and (iii) Project Steering Committee;
- adoption of a Project Implementation Manual, including a project implementation plan, matching grants manual, administrative, procurement, financial and accounting, monitoring and evaluation procedures, and a procurement manual, in form and substance satisfactory to the Association; and
- submission to the Association of a Letter of Tourism Policy.

Covenants applicable to project implementation:

- maintenance of a satisfactory financial management system, submission of quarterly interim financial reports to IDA forty five days after the end of each quarter period, and submission of the audited project accounts to IDA six months after the end of each fiscal year ending on July 7, and
- conduct of a project mid-term review by May 31, 2012.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. Ethiopia's wealth in cultural and natural tourism assets contrasts with its struggle with both poverty -per capita income is estimated to be only \$210- and image in international markets. With a population of over 75 million people---the second-most populous country in Africa after Nigeria---Ethiopia has had in recent years one of the fastest growth rates in Africa. Yet, it is faced with an urgent need to accelerate sustainable growth and create jobs. In order to lower unemployment and reduce poverty, economic diversification outside of agriculture is crucial. Current priority sectors, as designated by the government and aided through various policy initiatives and funding mechanisms, include textiles, leather, and horticulture. These sectors are producing a valuable demonstration effect and show clear, upward trends in employment, exports and income generation---all contributing to the economics of improved living standards. The same success can now be achieved in Ethiopia's services arena, in particular through strategic and focused interventions in the country's tourism sector. Globally, tourism is an under-recognized export activity with the ability to generate foreign exchange and jobs within a country while encouraging private sector growth. Specifically in the case of Ethiopia, tourism sector support will serve to jump-start the country's economic diversification, while contributing to export earnings and new job creation.

2. Ethiopia has strong potential as a tourism destination offering *a rich array of cultural, historic and natural sites* that set it apart from its neighbors. Its natural and cultural assets are unique and potentially very productive. The United Nations Educational, Scientific and Cultural Organization (UNESCO) recognizes eight world heritage sites (as many as that of South Africa, Morocco and Tunisia in Africa). Ethiopia's recognized sites include Axum's stelae; the monolithic churches of Lalibela; Gondar's castles; the Omo Valley; Hadar (where the skeleton of *Lucy* was discovered); Tiya's carved standing stones; Semien National Park; and the walled city of Harar. Two additional sites, Konso and Bale National Park, are currently under consideration¹ by the World Heritage Committee for inclusion on the World Heritage Sites list most likely by 2011.

3. However, a number of challenges face Ethiopia in attempting to capture a larger share of the tourism market in the region and transform cultural and natural assets into economic value. The world heritage sites, as well as many others of equal though unrecognized significance and beauty, have been neglected and there has been little public investment in their maintenance, interpretation for visitors and access infrastructure. Investments in infrastructure (e.g. airports, roads, telecommunications, water supply, and sanitation), hotels and human resources remain insufficient to meet a growing sector's needs. In the segment of tourism that is based on world heritage sites, visitors generally expect high quality services and well preserved, well presented sites. Yet, Ethiopia's tourism industry currently lacks the capacity to meet that demand. This fundamental mismatch is the core challenge. Both in the administration and in the private sector, there is a growing recognition of this problem and broad commitment to addressing it. The project attempts to assist Ethiopia in overcoming the key obstacles to tourism development.

¹ The formal nomination for Konso has been submitted, whereas the Bale National Park is in the voluntary submission phase of the registration phase.

4. *Private investment in the tourism sector is faced with constraints* pertaining to the availability and quality of infrastructure, land, term finance, as well as weak institutions and capacity:

- *Infrastructure-related constraints* are particularly experienced in the areas of roads, water and sanitation, telecommunications, and air transport. The bad quality of roads in tourism destinations limits the possibility of visiting cultural and natural assets in various destinations and increases the cost of travel. Insufficient water supply and poor sanitation in key destinations put a strain on communities' living conditions and discourage private investments in hotels. The poor quality of telecommunications services in Ethiopia limits sector professionals and tourists' ability to leverage technology in accessing information, marketing the destination, and maintaining the necessary communication during a trip. With all of these infrastructure limitations, the tourist experience in some destinations still tends to be more of an adventure than a leisure travel experience. Moreover, the absence of modern payment systems which hinges on poor quality of information communication technology (ICT) hinders spending by tourists. Ethiopia has flight links to the major destinations particularly in the Northern Route which includes Lalibela and Axum. However, the reliability and quality of service needs improvement. The introduction of competition in the domestic air transport sector is necessary to ensure more efficient service provision. In the medium term, the upgrading of existing airports to international levels would enhance the attractiveness of the destinations.
- While principles of *land* allocation have been well articulated, the cost and time of *access* have been severe constraints. The provision of land is the primary responsibility of regional administrations, and the lack of clear city zoning policies often results in lodging developers having limited success in securing prime locations for their businesses. Moreover, while auctioning plots creates transparency, the limited number of available sites usually results in inflated prices.
- *Lack of term financing* is a binding constraint, and it is compounded by the fact that banks prefer to finance short term transactions to minimize risk. Collaterals, which are routinely required to access bank loans, cannot always be mobilized by some tourism businesses because of the risk associated with their assets (e.g. lodges are not accepted as collaterals because of their construction material). The limited bank financing translates into very low debt to equity ratios and hampers the development of new and innovative products as well as the reinvestment in existing assets. Moreover, lack of or limitation to the use of modern payment systems constrains the sector growth.
- *Tourism institutions*, both in the public and the private sectors, are recent and have *limited capacity*. Moreover, industry-specific skills remain quite scarce; and this leads to a mismatch between the wealth of cultural assets that appeals to knowledgeable tourists and the sub-standard quality of services that they receive along the value chain.

5. In addition to the above limitations to private sector-led tourism development in Ethiopia, *community involvement* needs to be strengthened to ensure pro-poor and sustainable growth in the sector. This community involvement would entail, in the first instance, the creation of new economic opportunities in the form of employment in tourism businesses, supply of goods and services to tourism enterprises or direct sales, and establishment of community-based

businesses in areas including crafts and souvenir retail outlets, guiding, entertainment, transport, catering and lodging. It would also involve participation in the design and implementation of sector activities, thus genuinely materializing the community's collective stake in the growth of tourism.

6. With respect to Ethiopia's position in the global tourism industry, the country has to overcome its firmly rooted *negative image*. In spite of some efforts to reverse it, the country's image for many potential tourists remains one of dire poverty and conflict spread through international media.

7. To overcome the above challenges, the Government of Ethiopia (GoE), under the leadership of the Prime Minister, articulated a new paradigm for tourism development in 2005 to set in motion and rapidly build the sector as a pivotal component of the country's economic development. The new paradigm also recognized the development of tourism as an important pillar for poverty reduction contributing to Ethiopia's achievement of its Millennium Development Goals.

8. The above shift in priorities triggered GoE increased investment demonstrating its recognition that tourism development can be a driver of growth; and a new Ministry of Culture and Tourism, with State Ministers for Culture and Tourism respectively, was created in 2006. Subsequently, Ethiopia's Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2005-10) affirmed the GoE's commitment to the development of the tourism sector emphasizing that historic and cultural sites need to become productive sources of jobs, incomes and economic growth for Ethiopians. It is in support of this PASDEP objective that the World Bank produced a tourism sector study "*In Makeda's Footsteps: Towards a Strategy for Pro-poor Tourism Development*" (2006). Since then, the GoE has taken the following initiatives: (i) drafting a tourism policy, (ii) initiation of a public-private forum known as the National Tourism Council, chaired by State Minister of Tourism and replicated at the regional level with responsibility for advocacy, coordination and public/private communication; (iii) commitment of resources for the rehabilitation of the Catering and Tourism Training Institute in Addis Ababa; (iv) investment in upgrading airports on the Northern Historic Route (e.g., Axum and Lalibela); and (v) demonstration of a commitment to develop the sector through the implementation of a series of investments in infrastructure such as roads and water supply.

9. The above steps taken by the public sector demonstrate the recognition of the need to step up investments in key destinations in order to increase their attractiveness to the tourists and to encourage the private sector to take more risks. In the latter instance, there has been a sharp increase in private sector investments over the last few years, particularly in hotels and high-end lodges, reflecting some initial response to signals from the government. Furthermore, the *opening of key areas such as star-designated hotels and tour operations to foreign direct investment* is showing a promising trend. Yet, the sector has so far earned limited incentives from the government in terms of tax regime and importation of duty-free vehicles, relative to priority sectors².

² Per industrial development strategy adopted in 2003, priority sectors are horticulture, agro-processing, textile and garments, leather and leather products. These export-oriented sectors benefit from government facilitation in the

10. The GoE's draft tourism policy states objectives and strategies for the sector. It calls for improved infrastructure in tourist sites; better public and private sector human resources, strengthened supply chains, higher quality and standards of goods and services offered to tourists; and more effective marketing and promotion of tourism products. Adequate resources to effectively deploy strategies targeted at these objectives are still insufficient; and external assistance, both financial and technical, is expected to play a critical role in realizing the policy's objectives. Through support to the tourism sector, there is an opportunity to accelerate growth through focused interventions that leverage the GoE's strategic choices in areas that can generate jobs and incomes while fostering local development.

11. Based on a 2006 World Bank diagnostic study of the tourism sector, excluding foreign exchange earnings from Ethiopian Airlines, tourism generated approximately US\$ 132 million in direct in-country expenditure on accommodation, inland transport, food and drinks, visitor fees and arts and crafts purchases, making it the third highest foreign exchange earner behind coffee at US\$ 185 million and oil seeds at US\$ 168 million. The source of this revenue was nearly 150,000 foreign visitors who came to Ethiopia for various purposes such as leisure (63,000), business and conferences (62,000) and to visit friends and relatives (22,000). The average length of stay was 8.4 days, which is lower than in competing neighboring countries including Kenya (12.8 days), Tanzania (14.1 days) and Uganda (9.7 days). With an average expenditure per visitor estimated at US\$ 803, daily expenditure in Ethiopia of US\$ 95 was lower than in Tanzania (US\$ 104), but higher than in Kenya (US\$ 62), Uganda (US\$ 71), and South Africa (US\$ 47). These figures confirm that, as a tourism destination, Ethiopia is at an early stage of development characterized by relatively short and expensive stays due to poor tourism infrastructure and a weak supply side. Consequently, the development strategy aims to correct these weaknesses so as to allow Ethiopia to surpass competitors in market segments where Ethiopia has a comparative advantage in order to claim a larger share of the global tourism market.

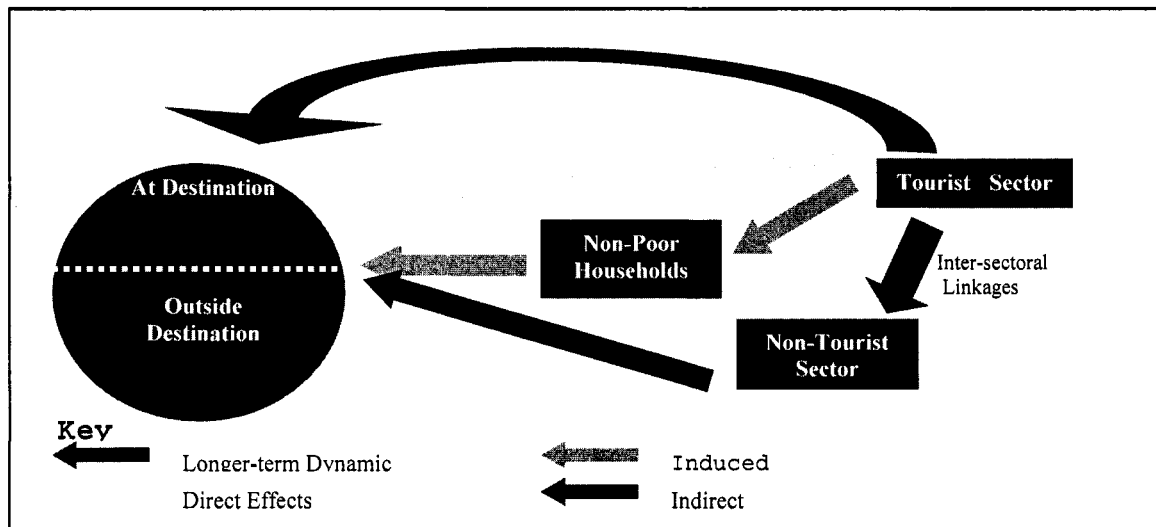
12. **Tourism and poverty reduction.** The project seeks not only to support accelerated tourism sector development but also to maximize its impact on poverty reduction, since:

- Tourism is labor-intensive and therefore has potential to impact a large number of lives through employment generation;
- Tourism has considerable potential linkages, especially with the rural sector and communities through food and artisanal products. It may also create initial demand for goods and services that can themselves develop into growth sectors. Moreover, due to the high income elasticity of demand for international tourism, it could offer a relatively rapidly growing market;
- Tourism has the potential to provide opportunities for off-farm diversification, particularly in areas that do not attract many other types of development options.

The figure below shows the channels through which tourism contributes to poverty reduction.

areas of licensing, allocation of land, infrastructure, access to finance, supporting investments and advice, and high level public-private sector dialogue.

Figure 1: Channels of tourism benefits for the poor



Source: Mitchell and Ashley (2008) *Pathways to Prosperity: How can tourism reduce poverty?*

Economic multipliers (direct, indirect and induced effects), resulting from the process by which tourist spending stimulates further spending and increased economic activity, stimulate employment and incomes. The direct effects are economic impacts directly related to tourism such as income earned by tourist suppliers (i.e., hotels, airlines and the travel agents). This translates into wages, rent, interest and payments to the suppliers of goods and services to the tourism establishments, which represent the indirect effects. The induced effects, on the other hand, arise from the re-spending of wages earned in businesses that benefit from direct or indirect effects.

13. In order to optimize the deployment of the above series of effects on the poor, the Ethiopia Sustainable Tourism Development Project (ESTDP) will place an emphasis on the strengthening of inter-sectoral linkages while fostering enhanced community involvement in the tourism sector. To that effect, partnerships with specialized non-government organizations and private businesses such as tour operators will be sought to foster effective community participation in the tourism industry.

B. Rationale for Bank involvement

14. The various constraints and challenges faced by the tourism sector pertaining to deficiencies in infrastructure, finance, land and institutions, are to various degrees being addressed by the PASDEP (2005-2010) and cannot, in their entirety, be tackled by a single project intervention. Yet, considering the potential of the tourism sector to help Ethiopia address pressing development issues, such as employment and incomes particularly in rural areas and the need to diversify foreign exchange earnings sources, this project has the potential to return high developmental impact in crucial elements of Ethiopia's growth and poverty reduction strategy.

15. The project offers an integrated set of interventions including improved sector policies, public-private sector partnerships, product and market development, linkages and community involvement, as well as institutions and skills enhancement. Recognizing the importance of reaching a high threshold to make the specific destinations internationally attractive, the project will focus on three sites, namely Lalibela, Axum and Addis Ababa, where the integrated interventions will contribute to easing current constraints and producing a demonstration effect for subsequent replication. The overall impact of this approach is expected to be an increased role of both the private sector and communities in the tourism sector, translating into higher investments and inclusive growth in services.

16. To this effect, this project seeks to improve the attractiveness and appeal of three sites; build public and private sector capacity to leverage the potential of the sector through improved policies involving stakeholders; and foster the creation of an enabling environment for increased private sector participation. The enhanced capacity of the public sector and the support to institutions that provide skilled human resources will contribute to easing the most pressing constraints of the tourism sector in a strategic and sequenced manner. The project also supports the implementation of sector policy frameworks as well as institutional development to foster public-private partnerships that are necessary for the sector to leapfrog to the level of more advanced competing countries. It is in this context that both the public and private sector players will collaborate to remove the constraints such as minimal access to finance, inefficient, out-of-date payment systems, poor access to land, limited investment incentives and inadequate promotion. The improvement of heritage assets through this project in order to enhance the quality of the visitors' experiences will attract more tourists. The upgrading of basic infrastructure (roads, water supply and sanitation) in Lalibela will also contribute to enhancing the sector's attractiveness to tourists and private sector investors. The project will also assist Ethiopia in better marketing and promotion of its destinations through improved means of targeted and better packaged promotion. The matching grant scheme will foster private industry innovation through a demand-driven approach which will also support backward and forward linkages within the sector. At the same time, support will be given to skills enhancement and higher community engagement in sector activities.

17. This broader course of action is in line with a strategic objective of the 2008-11 Country Assistance Strategy (CAS), which was endorsed by the World Bank's Board in April 2008, aiming at *strengthening the supply responsiveness of the industry and services sectors* as a way of achieving accelerated growth. The development of the tourism sector should contribute to broadening the economic base beyond the small number of "priority sectors" focused on by the Government over the last several years. Moreover, tourism has a high potential to increase private sector initiative; to strengthen linkages to small businesses that foster inclusive growth, and to become a leading foreign currency earner.

18. This project can create a major growth trend by setting an example of what can be done under a dynamic development situation. It will seek to create a model tourist destination –the Northern route-- that will trigger a high growth trend for the sector. By the end of the project, Lalibela for example will be a cleaner, better organized and functional tourism destination with enhanced services of international standard. In addition, the area's satellite sites will have better access and amenities giving the tourist motivation to stay longer and spend more. Moreover,

private sector investment confidence will be increased, thus leading to business expansion, increased economic opportunities and higher contribution to economic growth.

19. The World Bank is well placed to provide an integrated set of support services to unleash the pro-poor potential of tourism, drawing on global sound practices and experience in areas such as policy; cultural heritage protection and infrastructure improvement; linkages for private sector and community involvement, and skills enhancement. This is particularly justified by the fact that other donors (see annex 2), with whom the Bank coordinated throughout project preparation, have limited involvement in the tourism sector in spite of their intentions.

20. Related World Bank involvement includes (i) the *Cultural Heritage Project (CHP)*, a US\$5 million equivalent Learning and Innovation Loan (LIL) that focused on the conservation of World Heritage sites in Gondar, Axum and Harar, and which closed in October 2008, (ii) the Private Sector Capacity Building Project (FY06), and the Urban Local Government Development Project (FY08). Each of these projects contributes additional momentum to the improvement of the tourism sector directly and indirectly.

C. Higher level objectives to which the project contributes

21. The project will help Ethiopia diversify and broaden its economic base, increase its competitiveness, and strengthen inclusive growth prospects. Successful implementation of this project will contribute to poverty reduction as well as to the realization of Millennium Development Goals.

II. PROJECT DESCRIPTION

A. Lending instrument, financing arrangements and other approaches

22. The lending instrument is a Sector Investment Loan (SIL) under standard International Development Association (IDA) terms. The total project cost amounts to US\$ 39.50 million, consisting of an IDA Credit of US\$35 million equivalent, US\$1.5 million equivalent government financing of the resettlement compensation, and US\$ 3 million contribution by the private sector in the context of a Matching Grant Scheme (MGS). The funds will finance civil works, goods, services, operating costs and training.

B. Project development objective and key indicators

23. The project development objective (PDO) is *to enhance the quality and variety of tourism products and services in targeted destinations so as to increase the volume of tourism, foreign exchange earnings, and jobs.*

24. It is expected that the implementation of the project will yield the following key outcomes, particularly in key destinations: (i) an increase of annual international visitors; (ii) increased average spending by visitors translating into higher foreign exchange earnings; and (iii) an increased number of direct and indirect tourism-related jobs. Intermediate outcomes that are expected to contribute to achieving the desired PDO are detailed in Annex 3.

C. Project components

25. The project will have four components: (1) destination development, (2) market development, (3) institutional development and capacity building, and (4) implementation and results monitoring.

Component 1: Destination Development – US\$ 15.43 million

26. This component will have three sub-components: (i) the rehabilitation and enhancement of basic infrastructure in key historic sites, (ii) visitor services enhancement in selected destinations, and (iii) tourism product development.

Sub-component 1.1: Rehabilitation of heritage sites and enhancement of basic infrastructure in selected destinations (US\$ 10.33 million)

27. Under this sub-component, the project will finance the following activities: (a) conservation of selected historic churches, delineation of World Heritage site boundaries and development of satellite sites in Lalibela; (b) improvement of basic infrastructure including access and by-pass roads, water supply, sanitation and solid waste management in Lalibela; (c) improvement of stelae field, archeological museum, monuments and attractions in Axum; and (d) renovation and improvement of the Addis Ababa Museum.

Sub-component 1.2: Visitor services enhancement in selected destinations (US\$ 4.00 million)

28. This sub-component will be comprised of the following activities: (a) rehabilitation and upgrading of tourists/visitor facilities, including interpretative services in key destinations (i.e. Lalibela, Axum, and Addis Ababa and environs); (b) signage and trail enhancement proximate to tourism sites; and (c) documentation and exhibitions at historic sites.

Sub-component 1.3: Tourism products development (US\$ 1.10 million)

29. The sub-component will finance activities seeking to diversify offerings in targeted destination and to support asset inventory in emerging destinations. Activities will consist of:

- tourism products development utilizing vernacular architecture, landscape features including historic district assets, and intangible heritage in Axum and Lalibela;
- tourism products development such as Entoto mountain view, museums and old houses in Addis Ababa and environs including Adadi Mariam, Melka Qunture, Tiya;
- tourism products development and capacity development plans for the Southern, Western and Eastern routes.

Component 2: Market Development (US\$ 7.84 million IDA financing and US\$ 3.00 million beneficiary contribution)

30. This component will focus on promotion and marketing activities. It will have the following two sub-components: (i) positioning and marketing, and (ii) a demand-driven linkages program utilizing a matching grant scheme and providing support to communities.

Subcomponent 2.1: Positioning and marketing (US\$ 2.69 million)

31. This sub-component's activities will enable Ethiopia to develop and implement strategies to attract specific target segments from key markets. Attracting target segments involves development of: (i) a competitive position through defining target markets; (ii) collaterals accessible and attractive to target markets; and (iii) a program for on-going marketing, communication and promotion.

32. The following activities will be specifically financed: (i) development of a positioning and marketing strategy, (ii) implementation of a communication and promotion plan, (iii) development of promotional materials, (iv) participation in trade fairs, and (v) development of a tourism e-commerce online platform.

Subcomponent 2.2: Demand-driven linkages program (US\$ 5.15 million)

33. This sub-component seeks to (i) enhance the competitiveness of the Ethiopian tourism private sector through a cost-sharing (50-50 percent) matching grant scheme with an allocation of US\$ 3.0 million; and (ii) foster community involvement in the sector so as to optimize benefits for the poor with an allocation of US\$ 2.15 million. Beneficiaries in this category will not be required to match the support they receive through the project because it will not be feasible.

Matching grant scheme (US\$ 3 million IDA financing and US\$ 3 million beneficiary contribution)

34. The matching grant scheme will foster linkages by supporting small businesses mostly focusing on the selected destinations so that they can participate more fully in tourism sector activities through expanding their business skills and improving the quality of their products and services. In the target sites, some "flagship"-type investments in high-quality hotels are beginning to take place spontaneously, with significant financing from foreign sources (including Ethiopian Diaspora). For the destinations to become more attractive sites that offer comprehensive services (not just self-contained in high-end lodging), they need more active engagement from smaller businesses. This segment, however, tends to lack financial capacity or skills. Addressing this gap, the matching grant scheme will seek to finance projects (with both established and emerging entrepreneurs) that will allow entrepreneurs to increase, upgrade and innovate in the tourism value chain. The scheme will in particular help (i) upgrade technological and managerial skills; (ii) improve market intelligence and access; and (iii) foster backward and forward linkages within the private sector and eventually increase the spill-over effects of the entire sector. The matching grant scheme will be in the amount of US\$3.0 million, which will be matched dollar for dollar by private sector beneficiaries. These can be individual firms or groups of businesses legally registered. The individual grant amount will not exceed US\$150,000 per beneficiary.

35. Implementation arrangements for this sub-component are discussed further in Annex 4, and a dedicated Matching Grants Specialist, who will be on the PCU team, will be on board upon project effectiveness. A matching grants procedure manual will be part of the overall Project Implementation Manual (PIM). Key factors determining the proposal selection process will be

achievable outcomes expressed in measurable indicators contributing to the provision of improved products and services to tourists at the destinations. Technical guidance to beneficiaries for business plan development will be provided by the PCU as needed while making sure to remain at arm's length (e.g. utilization of external business development services providers). The grant scheme will operate on a reimbursement basis upon the successful implementation of proposals approved by the evaluation committee.

Community involvement (US\$ 2.15 million)

36. With respect to community involvement, the project will provide support to communities in the form of (a) awareness-raising about how they can better participate in industry activities and to mitigate tourism's social impacts; (b) training and skills enhancement in areas that can help increase their actual participation as employees, suppliers, and small business operators; and (c) partnerships with the private sector to develop linkages for common benefits. Economic opportunities that will benefit communities cover a wide range of areas such as retail activities, crafts and souvenirs, tour guiding, catering, transportation services (e.g. animal renting for transportation), entertainment and performance arts, and possibly bed and breakfast operations. The expertise accumulated by Civil Society Organizations (CSOs) working at the community level in tourism will be tapped in the process of the above; and activities and partnerships with private businesses will be encouraged in the three destinations of Axum, Lalibela and Addis Ababa and environs. Communities will make in-kind participation to the various support activities so as to ensure full ownership and sustainability.

Component 3: Institutional Development and Capacity Building (US\$ 5.55 million IDA financing and US\$ 1.5 million government contribution)

37. This component will aim to build capacity in sector management through supporting existing and new institutions. It will consist of two sub-components: institutional development and capacity building.

Sub-component 3.1: Institutional development (US\$ 3.92 million IDA financing and US\$ 1.5 million government contribution)

38. Specific activities that will be financed include: (i) policy implementation frameworks, including development of sector strategic plan, and competitiveness enhancement including development of sector strategic plan based on the national tourism policy and competitiveness enhancement packages;; (ii) Strengthening of the Ministry of Culture and Tourism (MoCT) and of Regional Tourism Bureaux, (iii) Establishment of standards and rating schemes for tourism enterprises; (iv) tourism data collection and statistics strengthening; and (v) Institutionalization of and support to the Tourism Council³; (vi) Establishment of and support to a Tourism Board to foster public-private partnerships in the area of tourism promotion. The Government contribution, estimated at US\$ 1.5 million, will finance the resettlement cost foreseen in Lalibela.

³ Tourism Councils are expected to operate at federal, regional and Woreda levels. There is a provisional guideline governing their operation which will need to be revisited to formally institutionalize the councils. They are expected to (1) discuss and solve operational problems, (2) provide policy advice to government and (3) act as feed-back loop for general operational trends.

Sub-component 3.2: Capacity building (US\$ 1.63 million)

39. To enhance the skills in the tourism sector and the quality of services that would contribute to higher tourist satisfaction, this sub-component will support (i) the assessment of the tourism education and training strategic needs, (ii) the improvement of tourism training institutions' programs, (iii) skills enhancement at the MOCT and other sector stakeholders, and (iv) the upgrading of guides and the hospitality industry workforce to standard levels of professionalization.

Component 4: Implementation Support and Results Monitoring (US\$ 2.70 million)

40. The implementation arrangements are based on the set-up of a PCU, with Site Management Units (SMUs), staffed with high-standard professionals who will be competitively selected. SMUs will provide support to regional tourism bureaux in the Amhara and Tigray Regions as well as in the Addis Ababa City Administration. The PCU's work will be advised and facilitated by a Project Steering Committee composed of public sector and private sector representatives, and reporting to the Minister of Culture and Tourism. This component will support reporting, auditing, results monitoring and evaluation as well as safeguards compliance activities, including the recruitment of an environmental expert on a need basis.

41. Implementation support will be allocated as follows: (i) PCU implementation support (US\$ 2.06 million) and (ii) results monitoring and evaluation (US\$ 0.64 million). This component will particularly put an emphasis on fiduciary (procurement and financial management) and safeguard compliance activities. In addition, it will support the set up of results-tracking system as well as periodic reviews, including the mid-term review and the completion report.

D. Lessons learned and reflected in the project design

42. Project design and implementation lessons relevant to this project are drawn from Ethiopia-specific projects, private sector development projects with tourism components and tourism dedicated projects in Africa and other regions.

43. In Ethiopia, there was an extended implementation period of the Cultural Heritage Project (FY2002-2009). The CHP was a Learning and Innovation Loan in the amount of US\$ 5 million equivalent aiming at supporting conservation efforts in Axum, Gondar and Harar. The most relevant lessons learned from the CHP are as follows:

- ***Importance of offering an integrated set of interventions to achieve meaningful outcomes:*** in order to transform the tourist destinations into growth poles, it is necessary to finance a comprehensive set of aspects including tourism assets and infrastructure improvement, visitors' facilities (e.g. walkways, parking lot, signage, interpretation, reuse of traditional houses, etc), skills enhancement (e.g. site managers, guides, communities). This approach is the foundation for meaningful outcomes instead of isolated outputs that have limited impact.

- ***Need for capacity strengthening:*** Capacity in the public administration (particularly regional tourism and culture bureaux), the private sector and the civil society remains weak. Implementation calls for on-going and consistent support.
- ***Foster linkages and community involvement:*** The optimization of project impact on poverty reduction requires that, beyond the support to the various segments of stakeholders, backward and forward linkages along the industry value chain be strengthened. This calls for systematic action to encourage innovation and cooperation within industry stakeholders, particularly the private sector and the communities.
- ***Norms and standards:*** The regulatory framework needs to be strengthened so as to have the private sector operate by defined standards.
- ***Offering diversification:*** CHP site-specific lessons suggest that more needs to be done to diversify and improve the quality of attractions. For instance, there is a need to further support the Axum Museum to improve display quality and the level of the tourist services. And in Harar, an effort needs to be deployed to appeal to a wider range of tourists, beyond low end back-packers, by not only upgrading the attractions but also through improved town planning.

44. Moreover, the design of this project also takes into account the following lessons learned from other World Bank operations:

- ***Geographic focus:*** Similar to the Jordan Cultural Heritage, Tourism and Urban Development Project which focused on tourism development in five key historically and culturally important cities as well as its premier tourism attraction of Petra, the project's main focus is on key destinations on Ethiopia's Northern Historic Route that will be developed in conjunction with supporting tourism in the gateway city of Addis Ababa. Interventions on other routes are much more limited in scope.
- ***Leveraging the partnership between the public and the private sector:*** Building on other countries' past experience, this project seeks to build and strengthen partnerships between the public and the private sector through institutions such as the National Tourism Council and the Tourism Bureaux as well as an inclusive Project Steering Committee to ensure timely inputs into project implementation.
- ***Establishing a clearly defined project implementation structure:*** Tourism development at multiple sites in the vast country of Ethiopia requires a clearly defined project implementation system which allows for accountability and timely decision-making while actively engaging all stakeholders. This lesson, learned from both the Jordan Cultural Heritage, the Tourism and Urban Development Project and the CHP, is reflected in the design of the implementation arrangements.
- ***Matching grant scheme to foster private sector engagement and strengthen linkages:*** Building on experience from other projects and other countries, a matching grant scheme is included in this project to strengthen tourism businesses and other relevant

private sector entities, to encourage the adoption of industry standards and ratings and to improve the quality of products and services.

E. Alternatives considered and reasons for rejection

45. The underpinning of the project lies in the extensive analytical work carried out ahead of its design. This includes a sector review and strategy; a tourism value chain analysis; a market study; a linkages program assessment, and several destination-specific studies financed under the Project Preparation Facility (PPF).

46. The first alternative considered was to design an Adaptable Program Lending (APL) over a period of 10-15 years due to the important needs for tourism sector development. However, consideration of Ethiopia's competing financing needs led to the rejection of this option.

47. The second alternative considered was a sector Development Policy Loan (DPL). However, the weakness of the systems in place and the nature of the activities needed to support the jump-starting of the sector's development led the team to conclude that a sector investment lending approach is more appropriate.

48. The third option was to maintain the status quo and not do anything to support the tourism sector. However, in light of the stated Government policies to emphasize on tourism as one of the drivers of growth, confirmed by the findings of the analytical work, it was concluded that doing nothing would be a missed opportunity to leverage tourism for the achievement of the government's overall development strategy as articulated in the PASDEP.

III. IMPLEMENTATION

A. Partnership arrangements / Harmonization

49. The ESTDP is designed amidst the context of the other donors' activities: United States Agency for International Development USAID/Global Sustainable Tourism Alliance, German Technical Cooperation (GTZ), UNESCO and United Nations World Tourism Organization (UNWTO). Close coordination, including joint missions, was done during project preparation; and their respective activities are briefly presented in Annex 2. USAID, in particular, has plans to implement a five-year community-based tourism project with US\$ 7 million direct funding, with a focus on communities located along the Southern and Eastern tourist routes. When confirmed and operational, the USAID project will be complementary of the ESTDP interventions in these respective routes. Other areas of synergy include the following two donor-funded operations : (i) the ongoing UNESCO-executed "Lalibela Conservation Action Plan" , funded by Norway with a matching fund from the World Monuments Fund, and (ii) the planned "Harnessing cultural diversity for development and social progress in Ethiopia" which is financed by Spain and will be jointly executed by UNESCO and UNDP. Close coordination with other donors will be sought throughout project implementation in order to ensure effective support to Ethiopia's tourism sector development.

B. Institutional and implementation arrangements

50. The overriding principle guiding the institutional and implementation arrangements of the ESTDP is mainstreaming operational responsibility to federal and regional agencies responsible for destination and site development in activity areas. The public sector, the private sector and the communities will also be involved in the process of project implementation so as to discuss all relevant issues and enhance the project developmental impact.

51. MoCT will be in charge of the overall implementation coordination, and the regional tourism bureaux will have an oversight on the interventions carried out in relevant destinations/sites. Due to the very limited capacity in the MoCT, it was determined that implementation responsibility could not be mainstreamed at this stage, and that the set up of a Project Coordination Unit (PCU), staffed with dedicated full-time professionals recruited on competitive basis, is necessary to ensure efficient implementation. There will be a Site Management Unit (SMU) at each of the three target destinations, which, though reporting administratively to the PCU, will work closely with local authorities at regional and Woreda levels. PCU and SMU staff will be contracted for the period of the project implementation, contingent upon satisfactory annual performance. Capacity of the MoCT will be strengthened throughout project implementation, particularly through the PCU, with a view to creating conditions that would allow implementation mainstreaming in the future.

52. The oversight of the project will be exercised by the Culture and Tourism Minister's Office. The Ministry will establish a Project Steering Committee (PSC), chaired by the Minister, and composed of representatives of federal and regional governments, private sector and civil society, including religious institutions. Some donor agencies involved in the sector could be invited to participate in the PSC.

53. The PCU will be responsible for the day to day implementation of the project and will report to the Minister's Office. It will also be responsible for the oversight of the implementation of environmental and resettlement activities as discussed in the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF). In the three focus destinations, SMUs will be responsible for implementation, reporting to the PCU and getting guidance as well as inputs from regional authorities. Each SMU will also ensure that the relevant Woreda level Tourism Office Head and other local stakeholders, including private sector representatives, are engaged throughout project implementation. Project activities outside the three main destinations, i.e. Lalibela, Axum, and Addis Ababa, will come under the PCU in close coordination with regional tourism bureaux and the Addis Ababa City Administration. A graphic representation of the implementation arrangements structure is provided in Annex 6.

54. The PCU will be responsible for handling procurement and Financial Management (FM) functions for the project. A tendering committee composed of staffs of the MoCT and the PCU (procurement specialist may be included in the committee to provide expert advice to the committee as member of the committee or ex-officio) and others as required, will be responsible for evaluation of bids and selection of consultants. End users of the procured services or goods may also participate as members of the tendering committee as required to ensure that the procurement is done according to specified needs. Endorsement on procurement will be made by the tendering committee and the MOCT head will approve the award recommendations.

55. A Project Implementation Manual (PIM), including a project implementation plan, a matching grants manual, administrative, procurement, financial and accounting, monitoring and evaluation procedures, will be finalized by project effectiveness. The PIM will discuss issues pertaining to periodic reporting and independent operational audits that may be carried out from time to time. A mid-term review will be held no later than May 2012 with a view to assessing progress and, if necessary, to re-direct the project by integrating additional lessons learned and implementation realities.

C. Monitoring and evaluation of outcomes/results

56. An emphasis will be put on monitoring and evaluation (M&E) to ensure that the project achieves its development objectives. An overall M&E system, based on the results framework in Annex 3, will be discussed in the Project Implementation Plan (PIP). The PCU will have the responsibility for results framework monitoring; and, building on the baseline and the findings of the planned annual surveys, the results framework will be further strengthened throughout implementation. A synthesis of the expected outcomes by component is provided below.

57. For Component 1, Destination Development, the outcomes are as follows: (i) number of historic monuments rehabilitated in key destinations (Lalibela, Axum, Addis Ababa); (ii) number of kilometers of secondary roads rehabilitated in Lalibela; (iii) number of enhanced visitor services in operations in key destinations (Lalibela, Axum, and Addis Ababa), and (iv) number of trails with signage in selected destinations.

58. For Component 2, Market Development, outcomes and outcome indicators focus on improving the quality of promotion and marketing through applying strategies to attract specific segments and markets. In this regard, Ethiopia must be able to compete on a global scale as target visitor segments can choose from destinations around the world. The outcomes for this component support strategic positioning and promotion of Ethiopia's tourism product. The outcomes are: (i) international standard promotional materials developed; (ii) number of independent Small and Medium Enterprises (SME) travel service providers using e-travel platform; and (iii) number of businesses in the tourism value chain that have successfully implemented upgrading plans through the MGS.

59. For Component 3, Institutional Development and Capacity Building, a crucial building block for Ethiopia's tourism sector is the strengthening of the Ministry of Culture and Tourism and other stakeholders in all efforts encouraging the private sector. This is requisite for the sector to become both strong and sustainable. Component 3 outcomes also contribute to the strengthening of the sector's management capacity and increased professionalism. Specific outcomes are: (i) number of norms and standards supporting tourist development and promotion developed; (ii) hospitality industry operational standards established and implemented; (iii) National Tourism Council and Tourism Board established and operationalized; and (iv) tourism training and education upgraded at technical, vocational and university levels.

60. The PCU will be responsible for conducting M&E activities. Building on the baseline established during project preparation, the PCU will initiate the design of surveys required to track performance and results during the start-up phase. An outcome-oriented approach, as

presented in Annex 3, has been developed that would allow corrections during implementation to achieve the objectives and efficient incorporation of lessons learned.

61. Project impact data collection will be the responsibility of the PCU, working closely with the Statistics Department, which will collect data on various outcome and key performance indicators as reflected in Annex 3. PCU will also be responsible for tracking the performance of project environmental and social safeguards activities as per ESMF and RPF. Moreover, the PCU will be responsible for preparing all periodic fiduciary reporting requirements including impact and output indicators to IDA as well as the annual project audit.

D. Sustainability

62. The importance of the project has been recognized by the government and the proposed technical and financial assistance is perceived by all stakeholders as timely and necessary. ESTDP supports the government's PASDEP and its policy commitments in the area of expanding the benefits to be realized from the tourism industry at national, regional and community levels. The project is also underpinned by Tourism Policy developed by the MOCT which is accountable to the Council of Ministers for the implementation of the project. A high degree of commitment is expected in the implementation of project activities. The ESTDP project will also address the constraints stemming from low capacity at the different tiers of implementing authorities through the Institutional Development and Capacity Building component.

63. The heightened engagement of both the private sector and communities in this project's activities through the Demand-driven Linkages Program, the strengthening of the Tourism Councils at the different tiers of Government and the establishment and operationalization of the Tourism Board will lay the ground for a sustained development trend for the sector. The expansion of economic opportunities such as the creation of new businesses and new jobs will contribute to sustainability as well.

64. Finally, sustainability will also be ensured through compliance with all environmental and social requirements identified in the ESMF and RPF and to be further documented in the environmental and social management plans as well as resettlement action plans.

E. Critical risks and possible controversial aspects

65. The major risks facing the successful implementation of the project are related to (i) weak institutional capacity; (ii) limited experience in managing procurement and financial aspects of World Bank-funded projects; (iii) safeguards issues; and (iv) weak private sector response compounded by the global economic crisis.

66. **Institutional capacity.** Project implementation success will require sustained government commitment to addressing the challenges faced by the tourism sector as well as strengthened capacity at both the federal and regional levels. This will also require action-oriented approach to issues pertaining to infrastructure, term finance and payment systems, private sector incentives and community engagement. Heightened public-private sector dialogue under the PASDEP framework and through the National Tourism Council is critical to mitigate this risk; and the project will support this dialogue through advisory services and analytical work

that may lead to effective and timely implementation of reforms and related operational actions. Moreover, day-to-day implementation will be managed by a PCU, staffed with competent, experienced, and competitively recruited professionals; and capacity development will be supported at federal (MoCT) and regional levels.

67. **Limited experience in managing fiduciary aspects of World Bank-funded projects.** The only one World Bank-financed project executed by the MoCT was the CHP, a US\$ 5 million equivalent LIL, and there was no capacity built within the Ministry so as to master procurement and financial management in accordance with IDA guidelines. To mitigate the risk in this area, the project will ensure that qualified professionals are recruited to professionally handle procurement and financial management issues. Moreover, training will be provided; and IDA will sustain implementation support throughout the project life.

68. **Safeguards issues.** Management capacity for an orderly resettlement process in Lalibela may be a challenge for the local administration with regard to fair compensation and transparency in particular. The discussion has taken place with various levels of the administration and with the affected population. A RPF has been developed in the process of project preparation; and a resettlement action plan will be prepared prior to the relocation of people. It has also been agreed that a Resettlement Specialist will be placed by the PCU in the Lalibela Mayor's office to ensure that the process is properly handled throughout. On the environmental side, specialized expertise will be mobilized by the PCU on a need basis to ensure compliance with the provisions of the ESMF.

69. **Weak supply response from the private sector and global crisis impact.** This risk concerns the private sector's response in the area of investment, particularly for improved accommodation and better tourist services. It also concerns the effectiveness of the linkages expected at SME and community levels with products and services that can meet the quality standards expected by the tourists. While this may not pose a major problem in Addis Ababa, it may be a constraint in the smaller towns such as Axum and Lalibela. The public-private sector dialogue and partnerships in the sector, involving private sector representatives and associations and leveraging instruments such as the matching grant scheme, will help mitigate this risk by improving both the investment climate and the sector competitiveness. It is also expected that the global economic crisis translates into a slower growth of tourists arrivals in Ethiopia; and this will be mitigated by a stepped-up effort to make the Ethiopia destination more attractive and to promote it in a more systematic manner.

70. The following table summarizes other key risks and mitigation measures:

Table 1: Critical risks and possible controversial aspects

Potential Project Risk	Proposed Mitigation Measures	Risk Rating
Weak Government commitment and institutional capacity	Leverage the overall policy dialogue under the PASDEP and the public-private sector partnerships in the context of the National Tourism Council; Strengthen the MOCT's implementation capacity by hiring qualified professionals for the PCU and support targeted destinations through adequate staffing of SMUs while ensuring stakeholders participation. CSOs' contribution and private sector partnerships will be encouraged to foster community involvement.	Moderate
Limited procurement capacity	Recruitment of qualified procurement specialist and procurement assistant to handle procurement matters; training for PCU staff including SMUs.	High
Financial management issues related to quality and timeliness of reporting and audits	Recruitment of qualified financial management staff (financial management officer and accountants) to execute the project.	Moderate
Resettlement issues not well handled by the Lalibela local authorities.	A Resettlement Policy Framework has been prepared and a Resettlement Action Plan will also be developed in the early stage of project implementation. A Resettlement Specialist will be hired under the project to assist the Lalibela administration carry out the resettlement process in an orderly manner. The Government has budgeted for compensation of the affected population and the latter will be consulted throughout the process.	Moderate
Environment deterioration as a	An ESMF has been prepared and mitigation measures have been	Moderate

result of project intervention	identified. Funding has been provided for in the project costing. An Environment specialist hired by the Government. Close supervision by Bank and UNESCO to ensure that environment will not be affected	
Weak private sector response and adverse impact of the global crisis	The private sector may be reluctant to invest in competitiveness enhancement and tourists' arrivals may not increase at the same pace as the historic trends because of the global crisis. The matching grants as well as the combination of destination development and increased marketing effort are expected to mitigate these risks.	Moderate
Overall risk	Strengthen institutional capacity and skills in Bank-funded project implementation.	Moderate

F. Credit conditions and covenants

71. Conditions for project effectiveness will be:

- establishment of Project implementing entities with functions, composition and resources satisfactory to the Association: (i) Project Coordination Unit, comprised of key staff recruited on a competitive basis including a Project coordinator, a financial management officer, a procurement officer and an assistant procurement officer, a monitoring and evaluation specialist, a civil engineer, a resettlement specialist, and an administrative assistant; (ii) Site Management Units, for each of the three targeted Project sites (Lalibela, Axum and Addis Ababa), which shall include an implementation officer and an accountant; and (iii) Project Steering Committee;
- adoption of a Project Implementation Manual, including a project implementation plan, matching grants manual, administrative, procurement, financial and accounting, monitoring and evaluation procedures, and a procurement manual, in form and substance satisfactory to the Association; and
- submission to the Association of a Letter of Tourism Policy.

72. Covenants applicable to project implementation will be:

- maintenance of a satisfactory financial management system, submission of quarterly interim financial reports to IDA forty five days after the end of each quarter period, and submission of the audited project accounts to IDA six months after the end of each fiscal year ending on July 7, and
- conduct of a project mid-term review by May 31, 2012

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

73. A cost-benefit analysis model was developed to calculate the net present value (NPV) and the economic rate of return (ERR) in a “with” and “without” project framework on a 12-year time horizon. The Net Present Value of the net benefits of the components of the project at the discount rate of 12 percent is estimated at US\$ 88 million with an ERR of 43 percent. Substantial fiscal benefits of US\$ 32 million are expected to accrue. Detailed assumptions and analysis, as well as the results by activities categories, are provided in Annex 9.

Table 2: Aggregate Economic Analysis of the Project

	Present Values of Flows	Fiscal Impact
	Net Economic-Financial	Taxes (\$ mn)
Benefits (US\$ mn)	108.1	32.4
Costs (US\$ mn)	19.8	
Net Benefits (US\$ mn)	88.3	
ERR (%)	43%	

74. A sensitivity analysis was also conducted to assess the robustness of results. The positive NPV in all three scenarios entertained (i.e. slow disbursement resulting in a seven year project implementation period, a 4% growth rate in tourism revenues, and a six year period to see the materialization of the economic benefits) indicates that the results of analysis are robust.

75. The economic benefits expected from the project include job creation, increased productivity and economic diversification. Improvements in service delivery are expected to result in an increased number of foreign and local tourists as well as average duration of stay that would generate higher level of tourism receipts. Also, increased production and output of the firms, particularly those benefitting from the matching grant scheme, will result in more job opportunities.

B. Technical

76. A study was carried out during project preparation to determine the needs for water, sanitation and waste management in Lalibela. Adequate funding for necessary activities in these areas has been provided in the project design. Moreover, the project seeks to ensure appropriate standards are achieved in (i) the provision of service to tourists visiting Ethiopia, (ii) hospitality industry business delivery, and (iii) technical, vocational and educational capacity building. Each of these will enhance the quality of service rendered to the tourists while improving the standard of living of Ethiopians.

77. Moreover, given the need to sustain the infrastructure maintenance in relevant regions, the respective local governments will be encouraged to develop realistic operations and maintenance plans that should be adequately funded in the respective budgets.

C. Fiduciary

Financial management:

78. The FM assessment of the MoCT was conducted in line with the Financial Management Practices Manual issued by the FM Sector Board on November 3, 2005. The objective of the assessments was to determine whether the respective institution has adequate FM systems and related capacity in place that satisfy the Bank's Operation Policy/Bank Procedure (OP/BP) 10.02 with respect to FM. Under the policy, borrowers and project implementation entities are supposed to have and maintain adequate FM systems throughout the project implementation period, to include budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements to ensure they can readily provide accurate and timely information regarding project resources and expenditures. These arrangements are deemed acceptable if: (i) they are capable of correctly and completely recording all financial transactions and balances relating to the project resources; (ii) they can facilitate the preparation of regular, timely, and reliable financial statements; (iii) they safeguard the project's assets; and (iv) they are subject to auditing arrangements acceptable to IDA. The assessments also included the identification of key perceived FM risks that may affect program implementation and proceeded to develop mitigation measures against such risks.

79. The MoCT will prepare annual budgets based on its strategic plans following the government budget processes. All regional bureaux will submit their annual plans to MoCT. The latter, after incorporating its own annual plans, will send the same to Ministry of Finance and Economic Development (MoFED). The project budget will be included in the annual budget proclamation of the federal government, under the name of the MoCT.

80. The project will prepare regular reports comparing actual and budget expenditures. These will be submitted to management and donors for information and decision making. The financial management manual will explain the detailed budgeting and budget control processes in the project. In light of the arrangements considered for project financial management, including the recruitment of qualified financial management officer and accountants, the associated risk is considered moderate.

81. Disbursement of IDA funds to the Designated Account will initially follow Transaction-Based Disbursement through the use of the Statement of Expenditures (SOE) format. The transaction-based disbursement method will be used during at least the first two years of implementation. In order for the project to move from transaction-based disbursement to report-based disbursement where six month forecasts of expenditure are paid quarterly hence ensuring the project has adequate funding at all times, the project will have to meet the following requirements during implementation: (a) sustain satisfactory financial management rating during the project's supervision; (b) submit Interim Financial Reports consistent with the agreed form and content within 45 days of the end of each reporting period; and (c) submit all expected Audit Reports by the due date. It has also been determined that retroactive financing is likely to be

needed for eligible transactions not covered by the PPF occurring between the Credit Board approval and DFA signing. Reimbursement of eligible expenditures would also be made for transactions taking place between signing and effectiveness.

82. The main weaknesses for the FM arrangements are expected to be a shortage of qualified accountants at the federal and regional levels. Preparation and submission of quarterly Interim Financial Reports (IFRs) could be a challenge due to the multiplicity of project sites and involvement of regional tourism bureaux.

Procurement:

Procurement management for this project will be based on the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and revised October 01, 2006, as well as on "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised October 01, 2006. Considering the weak procurement capacity assessed under this project, the risk is considered high; but it can be reduced to moderate level by hiring qualified project staff and providing adequate training. Below are the arrangements for the review of various procurement activities under the project.

Works and Goods:

83. ***Prior review:*** all contracts of goods estimated to cost equivalent and above US\$ 500,000 and works to cost equivalent and above US\$ 5,000,000 and the first two (2) contracts of each procurement method, irrespective of their amount, will be subject to IDA prior review as determined mandatory in paragraphs 2 and 3 of Annex 1 of the Bank's Procurement Guidelines.

84. ***Post review:*** for each contract not submitted to the prior review process, the procurement documents will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the World Bank's Procurement Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

Consultants:

85. ***Prior review:*** (a) each contract estimated to cost equivalent and more than US\$ 200,000 per contract for Firms and US\$ 100,000 per contract for individuals consultants; (b) all single source selection; (c) the first two (2) contracts of each selection method irrespective of the amount; (d) all trainings; (e) all terms of reference of contracts whose cost estimate is greater than US\$ 50,000, and (f) all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review according to paragraphs 2 and 3 of Annex 1 of the World Bank's Consultants Selection Guidelines.

86. ***Short lists composed entirely of national consultants:*** Short lists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the World Bank Consultant Guidelines.

87. ***Post review:*** For each contract for services not submitted to the prior review, the procurement documents will be submitted to IDA post review in accordance with the provisions

of paragraph 4 of Annex 1 of the Bank's Consultant Selection Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

D. Social

88. It is essential that this project is sensitive to social issues from the perspectives of the three main affected groups: the communities living in tourist sites, the visitors to these sites and the tourism suppliers in the public and private sectors. Detailed social assessments of the three sites of Axum, Gondar and Harar have been undertaken in 2006 during the implementation of the recently completed Ethiopia Cultural Heritage Project. These qualitative and quantitative studies provide a good insight into the issues of these areas' three affected groups. These social assessments, as well as the evaluation reports of the Ethiopia Cultural Project, will form the basis for understanding the social issues in the target project sites. This earlier project also had immense learning in the area of craft marketing both locally and internationally which will also greatly benefit the current project.

89. The site of Lalibela which is the focus of much of the rehabilitation and civil works activities in this project was not included in the earlier social assessment of Ethiopia Cultural Heritage Project. Most of the social challenges in Lalibela are linked to the presence of communities inhabiting the ancient church sites. A brief socio-economic study has been undertaken as part of the Resettlement Policy Framework which provides an insight into the profile of the community in Lalibela, and highlights the main issues. It has been decided that the households living in the core zone of the Lalibela church site, except for priests and nuns, will be relocated. The traditional abandoned buildings will be restored and used to demonstrate church related crafts. The other structures will be transported to the new site or discarded. The team supports the view that the Terms of Reference (TOR) for the Resettlement Action Plan (RAP) should be expanded to cover a wider coverage of social issues than is normally expected for a RAP, rather than commissioning a separate social analysis study for Lalibela.

90. In Axum the social issues are largely around the planned activity of (i) enhancing the town square as a social arena (e.g. cafes and souvenir outlets managed by locals) and (ii) restoring some traditional houses possibly to transform them into small lodges run by community-based entrepreneurs who could also benefit from the matching grant scheme. It is desirable that a particular attention be given to vulnerable groups such as women and the youth so as to generate employment and incomes for them.

91. Based on the current knowledge, the project has identified the following social issues on which to focus:

- Identification of vulnerable groups (e.g. widows, women and youth inhabiting the churches in Lalibela) and targeted activities to improve their livelihoods. It is suggested that these groups be given priority in jobs in the upgraded site (e.g. ticket sales, parking attendants, guides, etc.), based on broader community consultations;
- Consultation and involvement of affected groups as informants and partners in project implementation (e.g. informing households to be resettled of the package, training of local guides, development of community tourism especially in Axum and Lalibela);

- Focus on local traditions and practices and foster tourism that allows for local area development in conjunction with cultural heritage preservation. This also includes focusing on reviving local craft, improving facilities for locals to sell their wares proximate to sites, and improving the awareness of locals about their own culture (e.g. through pamphlet on the site in local language, raising awareness in schools and setting up a system where local schools are given a free tours once a month by a project-trained guide, helping locals set up cafes and possibly lodges).

92. Finally, since much of the core development objectives of this project are focused on improving livelihoods and community living spaces, all technical studies will ensure that social issues are addressed adequately and people are consulted and informed. The above studies and project implementation will strongly stress stakeholder involvement and participation. This is seen as an essential principle of sustainable tourism and will be respected throughout project implementation. Especially in Lalibela, where tourism is the most promising base for economic growth, it is hoped that the community will develop a genuine sense of collective ownership of this sector. Such a consensus will be crucial in gaining support for the overall urban planning and other adjustments (such as resettlement of some households and related adequate compensation) needed to maximize Lalibela's potential as a tourism-based economic center. Once a successful model of this nature is created, it is likely that other communities will emulate it.

E. Environment

93. Under component 1, the ESTDP will finance (i) improvements of basic infrastructures (i.e. access and by-pass roads, water supply and sanitation) in Lalibela; (ii) renovation and improvements of Addis Ababa museum; and (iii) rehabilitation and upgrading of tourist/visitor facilities in Lalibela, Axum, Addis Ababa and environs. The construction and rehabilitation activities related to the afore-mentioned investments are likely to incur some localized adverse environmental and social impacts such as soil and water pollution, loss of vegetation, soil erosion, air and noise pollution, and loss of livelihoods. Since the actual investment sites could not be determine prior to project appraisal and in order to ensure that the planned activities are carried out in an environmentally and socially sustainable manner, the borrower has prepared a revised final Environmental and Social Management Framework (ESMF) dated March 11, 2009.

94. The ESMF was prepared in consultation with relevant government officials as well as urban and rural residents of potential investment areas to solicit their views, and representative project sites were visited. The results of these consultations indicated that while there may be some difficulties associated with the relocation of potentially affected persons, there will also emerge new job and training opportunities, and the infrastructure investments such as improved roads will not only benefit the tourists, but also the local residents who will have easier access to markets, health and education facilities.

95. The ESMF describes the environmental and social screening process for sub-projects and includes (i) an Environmental and Social Screening Form which includes requirements for public consultations, disclosure of the screening results and Environmental Assessments (EAs), and the identification of potential adverse social impacts due to land acquisition during the screening process; (ii) an Environmental and Social Checklist; (iii) a summary of the World Bank's safeguard policies; (iv) draft EA terms of reference; (v) Environmental Guidelines

for Contractors to be attached to the tender documents; and (vi) an Environmental and Social Management Plan (ESMP) for the proposed ESTDP. The ESMP (i) outlines the institutional responsibilities and cost estimates for implementation and monitoring of environmental and social mitigation measures pertaining to the investments under component 1; and (ii) includes funding for environmental and social management capacity building under ESTDP. As discussed below, ESTDP will hire an Environmental Specialist, located in Addis Ababa, who will be responsible for overseeing the implementation of the ESMF and to assist Site Officers as necessary.

F. Safeguard policies

96. The following table reflects the safeguards policies that are expected to be triggered by the project:

Table 3: Safeguards Policies		
Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[x]	[]
Natural Habitats (OP/BP 4.04)	[]	[x]
Pest Management (OP 4.09)	[]	[x]
Physical Cultural Resources (OP/BP 4.11)	[x]	[]
Involuntary Resettlement (OP/BP 4.12)	[x]	[]
Indigenous Peoples (OP/BP 4.10)	[]	[x]
Forests (OP/BP 4.36)	[]	[x]
Safety of Dams (OP/BP 4.37)	[]	[x]
Projects in Disputed Areas (OP/BP 7.60)*	[]	[x]
Projects on International Waterways (OP/BP 7.50)	[]	[x]

97. The project has been assigned the environmental screening category B. It has triggered OP 4.01 Environmental Assessment; OP 4.11 Physical Cultural Resources; and OP 4.12 Involuntary Resettlement due to the construction and rehabilitation activities under component 1.

To ensure that the planned activities are carried out in an environmentally and socially sustainable manner, the borrower has prepared (i) a revised final ESMF dated March 11, 2009 and (ii) a revised final RPF dated March 11, 2009 as well. Both reports have been disclosed in Ethiopia on March 11, 2009, and at the Bank's Infoshop on May 19, 2009.

98. To ensure efficient implementation of the ESMF, the Project Coordination Unit (PCU) will hire an Environmental Consultant on a need basis. This Environmental Consultant will (i) coordinate activities related to the implementation of the ESMF with the Site Officers, the regional EPAs as well as the relevant municipalities in the Amhara and Tigray Regions; (ii) arrange for the implementation of the relevant provisions of the ESMF in Addis Ababa; (iii) make appropriate arrangements for environmental monitoring as recommended in the ESSF and/or separate EA reports as part of the ESTDP M&E system; and (iv) oversee the overall implementation of the ESMF.

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

99. In addition, ESTDP will fund an environmental training program to ensure that qualified personnel are available to implement the ESMF. According to the consultants, training is needed particularly for regional and local staff working in tourism development and environmental management. Provisions have also been made for (i) the preparation of EA reports that might be required on the basis of the screening results; and (ii) environmental protection works at the core sites and the buffer zone in Lalibela.

G. Policy Exceptions and Readiness

100. There are no policy exceptions identified under the project.

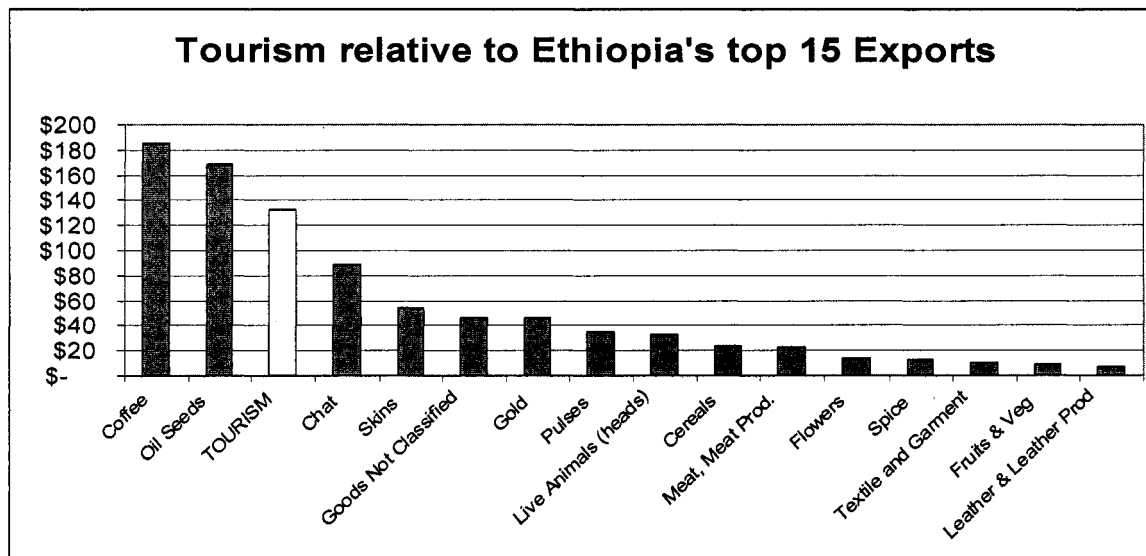
101. Throughout project preparation, the Ministry of Culture and Tourism has demonstrated a high ownership of this project, and progress made to date is the basis for project readiness for implementation. Senior staff in the MoCT have been highly involved in the preparation of the project and stakeholders participated in the process through extensive consultations. The sector policy has been prepared and is awaiting Cabinet review, PCU and SMU staff is being recruited, and the PIM is under preparation.

Annex 1: Country and Sector or Program Background

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. Several years of research by varied organizations, including the UN World Tourism Organization and the World Travel and Tourism Council, have led to the realization that tourism is one of the largest world export industries. In addition to generating foreign exchange, tourism contributes to economic growth through employment creation and income generation.
2. According to existing data, tourism is Ethiopia's third export industry, after coffee and oil seeds, as reflected by the following chart:

Figure 2: Tourism export performance



Source: World Bank (2006), Towards a tourism strategy.

3. Tourism has potential to become the leading vehicle for Ethiopia's development. If strategically planned and managed, the sector can lead by earning foreign exchange and generating both employment and incomes especially for rural residents.
4. Ethiopia enjoys a large number of historical and cultural heritage sites, coupled with natural attractions: it has eight UNESCO World Heritage Sites (as many as South Africa and Morocco), four important national parks, a source of the world's longest river, and sites revered among adherents to Christianity, Islam and Judaism and diverse African traditional societies. Ethiopia has very distinct cultural and historic tourism products based on (a) ancient Axumite civilizations and the Ethiopian Orthodox Church; (b) the walled Old City of Harar with its seven gates considered as the fourth holiest city in Islam; and (c) being the cradle of civilization, with fossilized evidence of the ancestors of homo sapiens as old as 4.4 million years B.C., as well as the much more famous Dinknesh, or *Lucy*. The table below shows Ethiopia's World Heritage sites and key natural parks. Two additional sites, namely Konso and Bale National Park in the south of the country, are in the process of getting added to the list of UNESCO World Heritage list.

Box 1: Ethiopia's World Heritage Sites and Natural Parks

The Eight UNESCO World Heritage Sites:

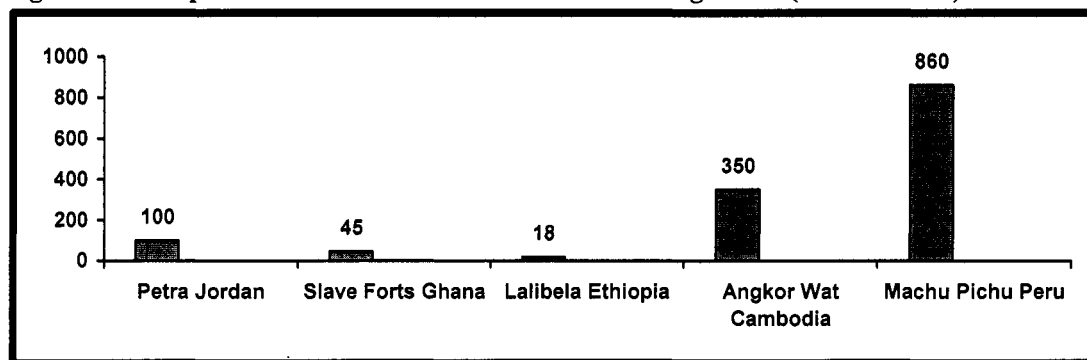
- Axum's Obelisks
- Monolithic Churches of Lalibela
- The Castles of Gondar
- The Omo Valley
- Hadar (a place where the skeleton of Lucy was discovered)
- Tia's carved standing stones
- The Semien National Park
- The walled city of Harar

The Four Major Natural Parks:

- Omo Mago National Park
- Bale Mountains National Park
- Awash National Park
- Nechisar National Park

5. Unfortunately, Ethiopia's tourism sector did not receive the due attention it deserved for a number of decades, particularly under the Derg regime. Since it was not viewed as a strategic sector, the cultural and natural attractions were neglected. Lack of coordination between the government and stakeholders resulted in poor infrastructure and under developed tourist sites as well as a shortage of skilled workers in the sector. As a result, despite the historical (cultural and heritage product) and natural advantages, Ethiopia hardly sees its tourism attractions transformed into income, compared to the 175 countries in a 2008 World Travel and Tourism Council report. In that study, Ethiopia's travel and tourism industry ranks 110th in absolute size, 105 in relative contribution to national economies and 143rd in long-term (10-year) growth. Ethiopia holds less than 0.05% of the cultural and heritage tourism market share, a market segment which is estimated to grow at 4% per annum according to the UNWTO.

Figure 3: Comparison of Visitors to other World Heritage Sites (in thousands) 2004



Source: Acorn (2006), Market research study for Ethiopia

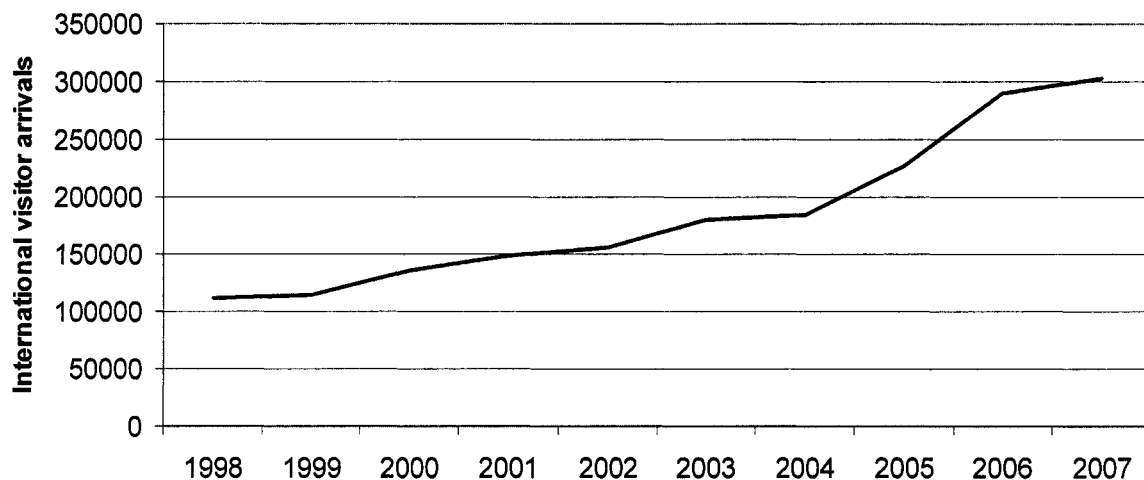
6. The biggest challenge currently faced by the GoE is to preserve the historic sites from natural decay and the national parks from degradation by the communities that live inside them. The entrance fees in church sites such as Lalibela go towards supporting the church's priests and deacons, and not the actual churches themselves. But even if the entrance fees were put to church

restoration, they are currently too small to make much of a difference. An estimate of fees at Lalibela is about Birr 1 million per annum (10,000 visitors paying Birr 100 each would provide the 700 priests and deacons with an income of only Birr 120 per month). The national parks face a similar situation. The total of entrance fees in 2000 was a mere Birr 500,000. There is some federal money for restoration and conservation, but given the limited tax base and other priorities, this is limited. There are funds for specific projects related to cultural and natural site preservation, but they too are limited.

7. Revenues generated from tourism remain below the potential. The current limited quality of service to tourists (e.g. lack of basic facilities, food and beverage outlets and shops, poor interpretation), compared to those offered at competing destinations such as Egypt, Petra and Angkor, keeps Ethiopia's tourism prices relatively low. The quality of facilities at tourist sites impacts both the amount tourists spend and their relative enjoyment of each site. Even Ethiopia's urban tourist attractions often fail to access the maximum spending by tourists at sites (e.g. the national museum has no shop). The 2003 DTIS found that tourists rated facilities as below average and would spend, on average, US\$15 more per day if facilities were better. This translates into lost revenue of US\$6 million from vacation visitors and US\$2.4million from business visitors.

8. Over the past decade, there has been a gradual revival of the tourism industry, and the following graph shows the trend between 1998 and 2007:

Figure 4: International arrivals in Ethiopia, 1998-2007



Source: ODI (2009), Ethiopia tourism pro-poor linkages.

9. It should be noted that the 2007 arrivals, in the amount of 303,000 visitors, are double the 2001 number, which suggests that the sector has been growing rather fast. While most of the tourists who visit Ethiopia stay in Addis Ababa because they account for business (conference) tourism than cultural, it should be noted that about 25% of vacation tourists do visit the site of

Lalibela. Most of the tourists visit Ethiopia for conferences. Combined business and conference tourists represent about 64% of the market in 2007, tourists visiting relatives and transiting represented 25% and leisure tourists represented about 10% during the same period. Growth has been strong in all of these segments in recent years, growing at an average annual rate of more than 13% but vacation tourism has grown fastest, at 25% per year. Within this segment, the dominant product is the cultural and historic heritage tourism. It should be noted also that the increased attractiveness of Ethiopian tourism products and services would be a major driver for business and conference tourists to stay longer and visit historic and cultural sites.

10. In light of the current global economic crisis affecting source markets, it is expected that the rate of tourist arrivals will slow down at least for 3-5 years, in keeping with global forecasts reported by the WTTC. There should be a recovery during 2011. By that time, Ethiopia should also have invested more in the development of its products and its promotion and be well-positioned to take advantage of increasing tourism flows.

11. Tourism sector development is constrained by a series of supply-side challenges, which also translate into reduced private investment. The main constraints are the availability and quality of infrastructure, land, term finance and adequate payment systems, as well as weak institutions and capacity.

12. Severe *infrastructure constraints* involve below standard roads, water and sanitation, telecommunications, and air transport. The bad quality of roads as well as the lack of their interconnection in tourism destinations limit the possibility of visiting cultural and natural assets in various destinations and increases the cost of travel. Insufficient water supply and poor sanitation in key destinations places a strain on communities' living conditions and discourages private investments in hotels. The poor quality of telecommunication services in Ethiopia limits sector professionals and tourists' ability to leverage technology in accessing information, marketing the destination, and maintaining the necessary communication during the trip. These infrastructure limitations directly impact the tourist experience and diminish Ethiopia's competitiveness in comparison to other destinations. Moreover, the absence of modern payment systems due in part to poor quality of ICT depresses tourist spending levels.

13. With respect to air transport, Ethiopia has air transport to the major destinations, particularly along the Northern Historic Route. However, the reliability, frequency and quality of service need improvement. Domestic flights are only operated by Ethiopian Airlines although independent charter flights are permitted. Government control of all air tariffs contributes to domestic flight revenues for Ethiopian Airlines not covering costs. Consequently, Ethiopia Airlines subsidizes domestic flights with profitable revenues from their international routes. Improvement of Ethiopian Airlines' quality and frequency of service, and development of competition in the domestic air transport market segment are desirable to ensure more efficient service provision necessary for tourism development. Moreover, the upgrading of existing airports to international standards will enhance the attractiveness of destinations.

14. *Availability of and access to land* have been a constraint in terms of both time and cost. The provision of land is the primary responsibility of regional administrations, and the lack of clear city zoning policies often results in lodging developers not accessing prime locations for

their businesses. Moreover, while auctioning plots creates transparency, the limited number of available sites usually results in inflated prices.

15. There are also issues pertaining to *availability of and access to term finance* stemming from banks preferring to finance short term transactions to minimize risk. Moreover, the financial sector is geared toward the financing of urban property markets and mainstream structures, neglecting many tourist enterprises which are often in rural locations or use non-traditional building materials (e.g. eco-tourism lodges). This is a result of both a low degree of competition and innovation in the banking sector and a lack of familiarity with tourism operations. As term financing is limited in availability and accessibility, this translates into very low debt to equity ratios and a severe limitation to investment and the development of innovative products. Moreover, payment systems remain quite underdeveloped; but the Government is planning to make improvement on this front in the coming years.

16. *Weak institutions and capacity*, both in the public and the private sectors, are a limiting factor to sector development. Skills remain quite limited; and this leads to a mismatch between the wealth of cultural assets that appeal to savvy tourists and the sub-standard quality of services that they receive along the value chain. For example, the limited professionalism of ground handlers (tour operators) is a hindrance to the quality of visitors' experience. The currently *dismal coordination between the government and stakeholders*, characterized by the absence of an operational national tourism council and tourism board as well as weak partnerships, has resulted in non-competitive tourism services, under developed tourist sites and a shortage of skilled workers in the sector.

17. In addition to the above limitations to private sector-led tourism development in Ethiopia, *community involvement* needs to be strengthened to ensure pro-poor benefits and sustainable growth in the sector. The current limited share of tourism earnings reaching the local community is affecting the sustainability of the sector and having a negative impact on the contribution of tourism to poverty alleviation. Expanded community involvement will entail not only participation in the design and implementation of sector activities, but also the creation of new economic opportunities in the form of employment in tourism businesses; supply of goods and services to tourism enterprises; or direct sales of tourism services; and establishment of community-based businesses in areas such as retail including crafts and souvenirs, guiding, entertainment, transport, catering and even accommodation.

18. Moreover, Ethiopia needs to overcome an issue of *negative image*, which is cited by all tour operators in source markets. Cases of recurrent droughts and human crises broadcast across international media have reinforced this negative perception which needs to be reversed through effective marketing and promotion. At the moment, the *marketing of Ethiopia as a destination is of a poor standard and ineffective*. In a competitive marketplace, the extent and standard of Ethiopia's tourism promotion deters potential travelers. Previous studies have found that, since tour operators are not effectively marketing Ethiopia, over 50 percent of visitors find information about the country through their own efforts including friends or the internet, and make their own booking travel bookings. A dismal share of European tour operators offer an itinerary to Ethiopia. The lack of up-to-date information available through multiple channels limits the number of potential tourists even considering Ethiopia as a travel destination.

19. Ethiopia can establish its niche as a cultural heritage experience well worth travelers' time and budget. The country's distinctive product is based on cultural and heritage assets of the Orthodox Christian Church and the ancient Axumite civilization. It is an "off the beaten track" destination providing a "new discovery" experience for tourists. Moreover, the tourist has an opportunity to enjoy nature and intangible heritage. Nevertheless, there is a lack of marketing and promotional strategy exacerbated by a low awareness of tourism by various stakeholders, particularly local communities. Ethiopia has a limited budget for promotion and, given its limited budget and many other demands for resources, this will continue. International standard promotion initiatives therefore need to be having maximum impact, target priority markets and use creative methods to promote Ethiopia's unique tourism assets.

The way forward.

20. Realizing the tourism sector's potential, the GOE has articulated a long-term vision with the goal of Ethiopia becoming one of the top ten tourist destinations in Africa by the year 2020 and a model for maximizing poverty-reducing impacts of tourism. To that effect, a draft tourism policy has been developed and it is expected to be endorsed by the Cabinet in first half of 2009. Its main priorities, along which the project is aligned, are captured in the box below:

Box 2: Key Elements of Ethiopia's Tourism Policy

***Tourism Development Vision:** "Serving Ethiopia's tourism development, moving along a community focused direction to fully develop in a responsible, sustainable and advantageous way and contribution in the country's building of new socio-economic order and in its development processes"*

Strategic pillars of Ethiopia's tourism policy:

1. Guiding the development direction of the tourism industry on broad bases including community participation, transparency and responsibility across the industry
2. Increasing the number and quality of current and new tourist attractions and products
3. Developing infrastructure network and hospitality services essential for the tourism industry
4. Strengthening market links and promotion so as to make the country's tourist products competitive in the international tourism market
5. Strengthening partnerships between different actors in the tourism sector
6. Building capacity throughout the industry.

The policy also defines the roles and responsibilities of the actors participating in the execution of the policy: Government bodies, development partners, communities, civil society and the general public. The sector financing is expected to be addressed through a combination of regular financing sources (government recurrent and capital budget, and donor assistance) and a tourism development fund to be established and fed by private contributions and levies.

Source: Ethiopia National Tourism Policy (2009 draft)

21. The context for developing tourism is somewhat unique in Africa since Ethiopia has been, until recently, closed to foreign investors. This has resulted in an unusual and potentially

powerful paradigm where businesses in the tourism sector are almost entirely Ethiopian-owned (either by the government, the Ethiopian Orthodox Church or the private sector). On the other hand, this closed and relatively controlled system has stifled the development of a creative and innovative industry (in terms of product development, crafts, exploration of new attractions, etc). However, a gradually open economic system has started to emerge; and international investors are increasingly active in selective segments of the tourism industry, particularly in hospitality and tour operations.

22. In the search for mitigating current overall constraints to investment, the Government has formulated the following investment policy provisions in the 2002 proclamation, which apply to and benefit the tourism sector as well:

Box 3: Key Investment Incentives

The following are the key features of investment incentives provided for in the 2002 investment proclamation and other regulations applying to the tourism sector:

- Capital goods and building materials may be imported duty-free by star designated hotels and international standard restaurants.
- Buses for tourist use may be imported duty free.
- Four-wheel-drive passenger vehicles of the Land Cruiser type may be imported duty-free subject to the conditions that three brand new vehicles must be purchased within a period of one year in a maximum of two consignments.
- Foreign investors require a permit and minimum capital of USD 100,000 for a single project (USD 60,000 for joint projects with domestic investors, USD 50,000 for sole investors in the areas of engineering, architectural, accounting and audit services, project studies, business and management consultancy services or publishing, and USD 25,000 for joint investments in these fields).
- External loans must be registered with the National Bank of Ethiopia; foreign investors may open foreign currency accounts in authorized local banks for transactions related to their investment.
- Any investor may employ duly qualified expatriate experts required for the operation of the business.
- Any investor is responsible for replacing expatriate personnel, except those in top management positions in an enterprise in which they are the sole or major shareholder, with Ethiopians within a limited period.
- Any foreign investor had the right to make remittances out of Ethiopia in convertible foreign currency for profits and dividends accruing to the investment.

Sources: Ethiopia, Investment Proclamation (Proclamation No 280/2002) ; World Bank, In Makeda's footsteps, 2006.

23. Nevertheless, private sector operators in the tourism sector feel that the Government should do more and treat the sector as a priority, similar to its current priority policies for horticulture, agro-processing, textiles and leather. The Government is considering adopting such an approach. Establishment of the proposed institutions, namely the National Tourism Council

and the Tourism Board, are expected to help formulate and implement strategic options on a public-private partnership platform enabling tourism to be a priority sector.

24. The development of tourism is expected to result in three types of economic impacts: balance of payment effects, income effects and the employment effects. The promotion of international tourism as a development strategy is expected to stimulate economic growth in its capacity to earn much needed foreign exchange and thus help with the balance of payments. The discussion of the various types of economic multipliers (direct, indirect and induced effects) are provided in Section A of the main text.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. The identify leading agencies that currently support or intend to support the tourism sector development are the following: USAID, Germany, Spain, Norway and UNWTO.

2. **USA:** USAID is preparing a five-year \$7 million dollar (to be matched by local funding and other sources, including community participation) community-focused tourism program, to be implemented by the Global Sustainable Tourism Alliance (GSTA) over the period of 2009-2014. The program's geographic scope is focused on communities along the emerging southern and eastern tourism routes. The program will focus on community benefits and job creation through tourism that relates to and benefits biodiversity conservation. The focus will be at the destination and community level.

The intervention expects to utilize destination/community level activities to enhance product offerings and diversify the economic benefit from tourism at the local level. This is likely to include travel philanthropy program with tour operators, carbon offset program, training, and investment promotion, business development, route development in the region, etc. Business level assistance and market linkages are planned for artisans and handicraft development.

4. **Germany:** GTZ has focused on supporting the development of the Ethiopian brand for key products overall, including tourism to support marketing of products. GTZ also support Hawassa University in setting up a model hotel for students' practical training.

5. **Spain:** A recent financing in the amount of US\$ 5.00 million to be executed jointly by UNESCO and UNDP over a period of three years was extended to Ethiopia for "Harnessing Cultural Diversity for Development and Social Progress ». The project, scheduled to become operational soon, will partly focus on the Amhara region, including Lalibela. The main areas addressed in the project are cultural diversity and cultural industries (crafts and intangible heritage).

6. **Norway:** The government of Norway is financing the UNESCO-executed « The Lalibela Conservation Action Plan ». The project is in the amount of US\$ 0.8 million with a matching fund of US\$1.0 million from the World Monuments Fund ; and it is scheduled to end in November 2011. It includes architectural and structural studies, structural monitoring and conservation works at the Gabriel Rufael Church in Lalibela, training in traditional conservation techniques for local workers and on-the-job training during the works, the drafting of a Site Management Plan for Lalibela in a participatory manner, the awareness raising on the intangible heritage values, development of a training module for tourism guides and training of 20 guides in Lalibela.

7. **UNWTO:** the UNWTO, through the use of the SNV (The Netherlands Development Organization) technical assistance, is working with the Ministry of Culture and Tourism on a couple of community-based tourism projects, applying the "Sustainable Tourism for Eliminating

Poverty (STEP)” approach. Rather than considering tourism as a single activity, these interventions seek to support linkages along the sector’s value chain.

8. The two community-based tourism interventions are located in Konso and Chench-Dorze (Southern Region). *Konso* was chosen strategically for its location at the gateway to the Omo valley at the heart of the southern circuit tourist route. Out of the 12 villages studied by the WTO, three villages are considered as pilot projects and funded by the STEP Foundation. Projects implemented to date include the passing of a revenue act to collect fees from visitors, training for government desk officers and local guides, and the initiation of microfinance enterprises. In the *Chench-Dorze community*, UNWTO, in collaboration with SNV, plans to provide capacity building support for marketing and destination management with products including handicrafts, locally guided tours, horse riding and performance and dance. The project’s target is for 200 households to earn incomes directly from tourism. Additionally, some participants are trained to enable their employment in local tourist lodges.

Annex 3: Results Framework

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

PDO	Project Outcome Indicators	Use of Project Outcome Information
<i>To enhance the quality and variety of tourism products and services in targeted destinations so as to increase the volume of tourism, foreign exchange earnings, and jobs.</i>	1. Average percentage increase in the number of international tourist arrivals in targeted destinations	• Evaluate the extent to which the project success is supporting tourism sector growth.
	2. Average expenditure by tourists in targeted destinations	• Assess relative effectiveness of various components.
	3. Number of new tourism-related jobs created in targeted destinations	• Inform future Government policy formulation and tourism development plan.
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcomes for Monitoring
Component 1: Destination Development		
Sub-component 1.1. Rehabilitation of heritage sites and enhancement of basic infrastructure		
1.1. Historic sites in key destinations rehabilitated and enhanced.	4. Number of historic monuments rehabilitated (including churches conservation) in key destinations (Lalibela, Axum, Addis)	• Monitor annual progress made on key destination activity and quality indicators.
	5. Number of km of secondary roads rehabilitated in Lalibela	• Provide feedback on implementation progress of specific development plans.
Sub-component 1.2. Visitor services enhancement in selected destinations		
1.2.1. Enhanced visitor centers in operation	6. Number of enhanced visitor centers in operation in key destinations (Lalibela, Axum, and Addis Ababa)	• Evaluate progress annually to assess capacity within the regulatory authority.
1.2.2. Increased cultural offerings in targeted destinations	7. Number of trails with signage in selected destinations	• Measure the project contribution to local economic growth.
Sub-component 1.3. Tourism product development in emerging destinations		
1.3. Tourism products improved at emerging destinations.	8. Number of emerging destinations with tourism development plans	• Assess use of tourism development plans by regional administrations.

Component 2: Market Development		
Sub-component 2.1. Positioning and Marketing		
2.1.1. Branding and marketing strategies to attract specific target segments and markets developed and implemented.	9. International standard promotional materials developed	<ul style="list-style-type: none">• Demonstrate the project contribution to local economic development/growth.
2.1.2. Efficient and informative e-travel platform and online booking developed and operational.	10. Number of independent SME travel service providers using e-travel platform	<ul style="list-style-type: none">• Evaluate the effectiveness of integrated service provision models and contribution of other relevant services and facilities to provide information on future development alternatives.
Sub-component 2.2. Demand-Driven Linkages Program		
2.2.1. Matching grant scheme to support private sector innovation operational	11. Number of businesses in the tourism value chain that have successfully implemented product upgrading plans through the MGS	<ul style="list-style-type: none">• Demonstrate the scope, variety, quality and effectiveness of tourism promotion activities and services.
2.2.2. Community-based products and services diversified and improved	12. Number of artisans selling crafts products to tourists at selected destinations	
Component 3: Institutional Development and Capacity Building		
Sub-component 3.1. Institutional Development		
3.1. Capacity of the Ministry of Culture and Tourism expanded and strengthened	13. Number of norms and standards supporting tourist development and promotion adopted	<ul style="list-style-type: none">• Demonstrate improved capacity of the government agency for planning and management.
	14. Hospitality industry operational standards established and implemented	
Sub-component 3.2. Capacity Building		
3.2. Management capacity and professionalism of the tourism sector strengthened	15. National Tourism Council and Tourism Board established	<ul style="list-style-type: none">• Demonstrate improved capacity of the government and private sector to carry out program developments and improvements.
	16. Tourism training and education upgraded at technical, vocational and university levels	<ul style="list-style-type: none">• Indicate the degree to which the project has contributed to the tourism sector development.

Arrangements for Results Framework Monitoring

Results	Project Outcome Indicators	Target Values					Data Collection and Reporting			
		Baseline 1	YR 1	YR 2	YR 3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Project Development Objective										
To enhance the quality and variety of tourism products and services in targeted destinations so as to increase the volume of tourism, foreign exchange earnings, and jobs.	1. Average percentage increase in the number of international tourist arrivals in targeted destinations	303,000 (2007)	7%	10%	15%	15%	15%	Annual	Tourism Statistics Bulletin	MoCT/PCU
	2. Average expenditure by tourists in targeted destinations	\$803	5%	7%	10%	15%	20%	Annual	Survey	MoCT/PCU
	3. Number of new tourism-related jobs created in targeted destinations	0	50	100	200	300	400	Annual	Tourism Statistics Bulletin	MoCT/PCU
Results	Intermediate Outcome Indicators	Target Values					Data Collection and Reporting			
		Baseline 1	YR 1	YR 2	YR 3	YR 4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component 1: Integrated Destination Development Plans										
Sub-component 1.1. Rehabilitation and enhancement of basic infrastructure in historic sites (incl. Lalibela, Axum, Addis Ababa)										
Destination and site specific integrated development plans prepared and implemented.	4. At least 10 historic monuments rehabilitated (including churches conservation) in key destinations (Lalibela, Axum, Addis) by end of project.	0	1	2	4	7	10	Annual	Project progress reports	MoCT/PCU
	5. A minimum of 12 km of secondary roads rehabilitated in Lalibela by end of project.	0			5	8	12	Annual	Project progress reports	MoCT/PCU

Sub-component 1.2. Visitor services enhancement in selected destinations											
1.2.1. Visitor services enhanced and operational.	6. Enhanced visitor centers operational in a minimum of 3 key destinations (Lalibela, Axum, and Addis) by end of project.	0	0	0	1	2	3	Annual	Tourism Statistics Bulletin	MoCT/PCU	
1.2.2. The quality of interpretation services in selected tourist destinations improved.	7. Number of trails with signage in targeted destinations.	0	0	2	5	7	10	Annual	Tourism Statistics Bulletin	MoCT/PCU	
Sub-component 1.3. Tourism product development											
Tourism products improved in emerging destinations.	8. At least three emerging destinations (three regions) have developed tourism development plans.	0		1	2	3	3	Annual	Project progress reports	MoCT/PCU	
Component 2: Market Development											
Sub-component 2.1. Positioning and Marketing											
2.1. Positioning and marketing strategies to attract specific target segments and markets developed and implemented.	9. International standard promotional materials developed by end of project.	0			Dev elop ed			Annual	Tourism Statistics Bulletin	MoCT/PCU	
	10. Number of independent SME travel service providers using e-travel platform.	0	30	60	70	80	100	Annual	PCU Report	MoCT/PCU	
Sub-component 2.2. Demand-Driven Linkages Program											
2.2.1. Matching grant scheme to support private sector innovation is operational	11. Number of businesses in the tourism value chain that have successfully implemented service/product upgrading plans through the MGS	0	10	20	30	45	60	Annual	PCU Report	MoCT/PCU	
2.2.2. Community based products and services diversified and improved	12. Number of artisans selling craft products to tourists in selected destinations (Lalibela, Axum and Addis Ababa).	0	3%	5%	7%	8%	10%	Annual	PCU Report	MoCT/PCU	

Component 3: Institutional Development and Capacity Building											
Sub-component 3.1. Institutional Development											
3.1. Capacity of the Ministry of Culture and Tourism expanded and strengthened	13. Number of new norms and standards supporting tourism development adopted	Not yet established						Adopted and implemented	Annual	Tourism Report	MoCT/PCU
	14. Hospitality industry operational standards established and implemented	0						established and implemented	Annual	Tourism Report	MoCT/PCU
Sub-component 3.2. Capacity building											
3.2. Management capacity and professionalism of the tourism sector strengthened.	15. National Tourism Council and Tourism Board established.						Established		Annual	Tourism Report	MoCT/PCU
	16. Tourism training and education upgraded at technical, vocational and university levels.							Improved and updated	Annual	Tourism Report	MoCT/PCU

Annex 4: Detailed Project Description

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. The project will have four components: (i) destination development, focused on tourism product, including the quality of both tangible and intangible cultural experience, infrastructure improvement, and diversification of offerings; (ii) market development, (iii) institutional and capacity building, and (iv) implementation support and results monitoring.

2. The project focuses on three major destinations, Lalibela, Aksum and Addis Ababa while addressing some areas of development for the other destinations. Its main objective is to demonstrate what a well developed destination can bring to the tourism sector not only through the increased income and jobs it can create, but also the learning effect for the other destinations. It is hoped that both the public and private sectors will gain useful lessons and replicate the development experience in the other destinations.

Box 4: Lalibela will be the Growth Model for Ethiopia's Tourism Sector:

Lalibela town, with a population of about 20,000, is significantly dependent on tourism for its development. The World Heritage designated rock churches have distinguished the town as Ethiopia's Flagship for tourism development. Lalibela's signature had been the top-view of the Bete-Giorgis, one of its 11 rock churches. But Lalibela has more wonders and mysteries that it has been carrying through more than 700 years. The carving out of complex church systems from single rocks may have meant less for Lalibela's distinction without the sophisticated architecture used which still shows absolute precision and art.

Lalibela received about 22,000 tourists in 2008, 80% of whom arrived at its airport which is connected to the town by a paved road. The tourist arrival rate has been increasing at about 20% per year in the last five years while the national average stands at about 13% for the same period. Lalibela has also gained the attention of development partners such as the European Union, Germany and Finland as a worthy site for their investments in development. The preservation of the churches by the temporary shelters, the construction of a modern Cultural Heritage Center with museums, a library, an amphitheatre and VIP guest rooms and the water supply project which is nearing completion will enhance the quality of services for tourists. The local Government's own project that upgraded the dusty road around the core zone by cobblestone construction shows their commitment for the improvement of Lalibela.

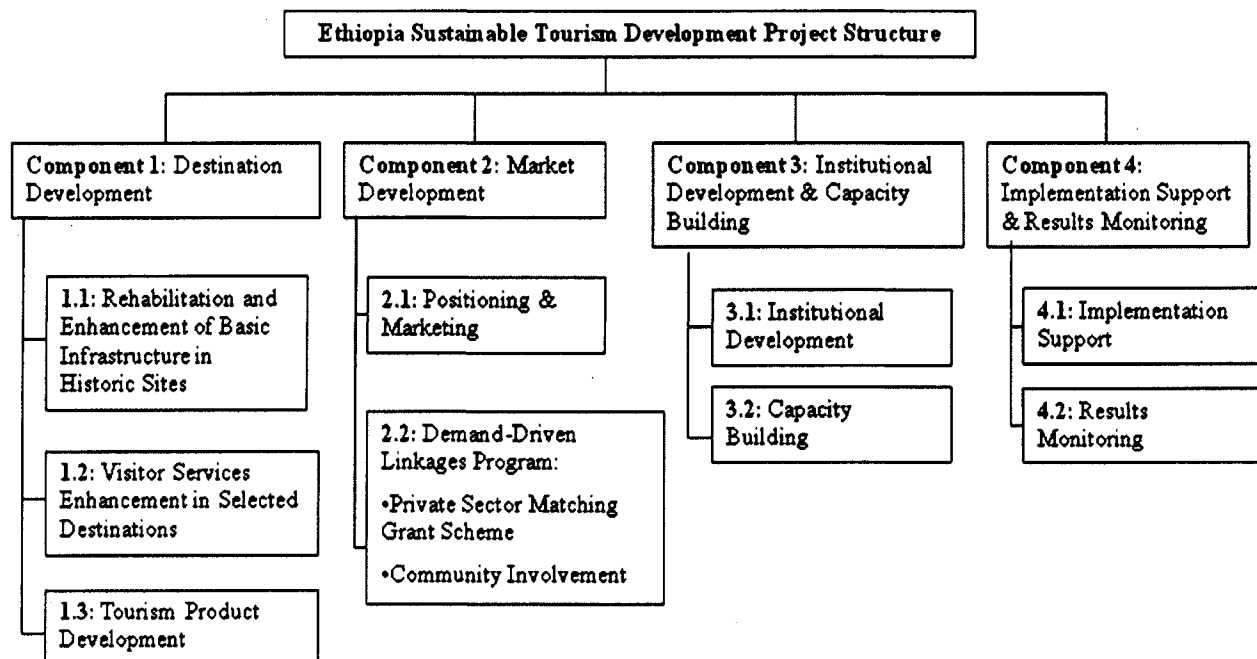
More than three-quarters of Lalibela's visitors are older tourists with high education and income. This type of tourist can pay more and extend their stay provided they can get gain good value.

This project can create a major growth trend by taking Lalibela to the next stage and setting an example of what can be done under a dynamic development situation. It will attempt to create a model tourist destination that will trigger a high growth trend for the sector. The project aims to do that by creating a differentiated product at Lalibela that will set an example for the other destinations. At the end of the project, Lalibela will be a cleaner, better organized and laid out

product with enhanced services that will bring it to international standards. In addition, the satellite sites will have better access and amenities giving the tourist better enjoyment and experience. This destination already receives the highest number of tourists without including pilgrimage. The project will change Lalibela's feature through the improvement of infrastructure including lighting, provision of sanitation facilities, supporting the development of community/cultural products in the core site, after the Government has relocated existing dwellers and improving the environment around the core site through landscaping and tree-planting.

There is, currently, an encouraging trend in private sector participation in realizing Lalibela's potential. In the last few years, the basis for accelerated destination attractiveness has been laid by (i) the implementation of a German/Finnish-funded water supply project, (ii) the support of the European Union which built a temporary shelter for a rock-hewn church as well as a Cultural Heritage Center with museum, a library; an amphitheatre, and other facilities, and (iii) the Government-financed construction of a cobblestone road on a previously dusty road crossing the town, (iv) the construction of three new hotels of improved standards which increased the number of beds in the area to 369. Currently, there are another four new lodges under different stages of planning and construction; one of them by a foreign investor whose 5-star lodge and conference center is under construction. The local community and private sector have already started development linkages with the surrounding farmers supplying vegetables, poultry products, meat and other products to the hotels and restaurants. The project's matching grant scheme activities will help further this trend to make it more sustainable and take it to a higher level.

Figure 5: Project Structure

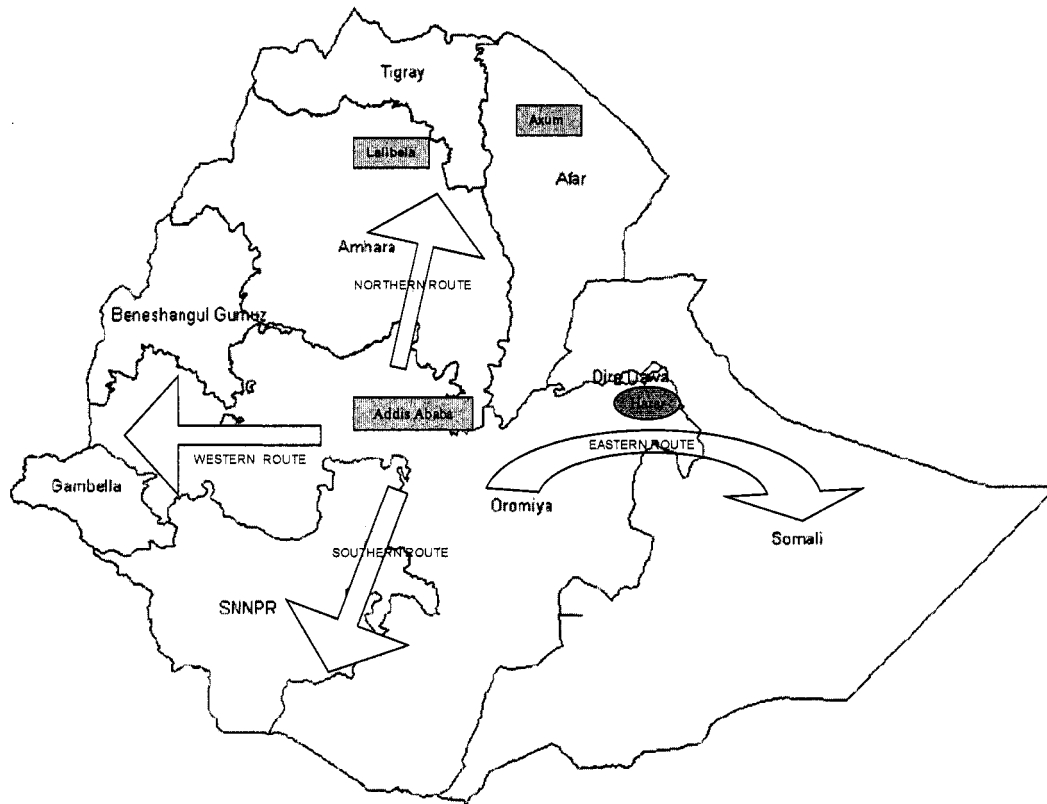


Component 1: Destination Development - \$ 15.43 million

3. This component supports the objective that the historic and cultural sites need to become productive sources of jobs, incomes and economic growth for Ethiopians. To achieve this, the project will provide support for destination improvement and management in Lalibela, Axum and Addis Ababa. The implementation of activities that have been identified will increase the appeal of the selected destinations and circuits, and it is expected that the tourism growth that will be triggered will in turn fuel job creation and income generating activities.

4. This component will have the three sub-components: (i) the rehabilitation and enhancement of basic infrastructure in historic sites, (ii) the enhancement of visitor services in selected destinations, and (iii) tourism investment and product development.

5. The following chart displays spatial distribution of the activities that will be supported by the project:



Sub-component 1.1: Rehabilitation and enhancement of basic infrastructure in historic sites (US\$ 10.33 million).

6. Under this sub-component, the project will finance the following activities aimed at improving cultural assets and enhancing the quality of the tourism experience so as to provide motivation to the tourist to stay longer and spend more. The sub-component will primarily focus on key destinations, namely Lalibela, Axum, Addis Ababa and environs, but also support

emerging destinations in the identification of the most promising products that should be developed.

(1) Lalibela

(a) conservation of selected historic churches, delineation of World Heritage boundaries, and development of satellite sites including Yimherane Kristos, Ashten Mariam, Genet Mariam, Na'akuto La'ab and Abune Yosef. These activities will support protection of the cultural assets necessary for improving the quality of the overall tourist experience and increasing the likelihood of an average length of stay; and (b) improvement of basic infrastructure entailing (i) the construction of two short by-pass roads (3km and 2.5 km) to establish the links between the three tourism zones around the churches zone area; (ii) the improvement of the Yemherana Kristos gravel road (12 km), and (iii) the improvement of water supply, sanitation and solid waste management.

(2) Axum

(a) conservation of the old church, upgrading of the stelae field, interpretation and signage of key attractions typically visited by tourists and religious pilgrims, and improvement of archeological museum;
(b) enhancement of a tourist walking route through Axum's historic area including the renovation of historic houses to support tourism private sector activities and renovation of two plazas enhancing local and tourist interactions;
(c) circuits signage and interpretation in key tourists attractions around Axum, and
(d) support for the operation of the crafts center initiated under the CHP.

(3) Addis Ababa and environs

(a) rehabilitation and improvement of the Addis Ababa museum,
(b) improvement of information centers at the airport and at Meskel Square,
(c) development of satellite sites (Tiya, Adadi Mariam, Melka Qunture, Entoto), and
(d) technical study on the rehabilitation of old houses.

Sub-component 1.2: Visitor services enhancement in selected destinations (US\$ 4.00 million).

7. This sub-component will be comprised of the following activities:

(a) rehabilitation and upgrading of visitor information facilities, including interpretation services in key destinations (Lalibela, Axum, Addis Ababa and environs),
(b) upgrading of signage and visitor routes, and
(c) expanded documentation and information displays illuminating the relevance of historic sites.

Sub-component 1.3: Tourism product development (US\$ 1.10 million).

8. The sub-component focuses on providing support to (i) mature destinations such as Lalibela, Axum and Addis Ababa to further diversify their offerings, and (ii) emerging destinations to determine their tourism assets and prepare integrated tourism development plans which emphasize sustainability. This sub-component will support, through surveys and technical studies primarily, the following activities:

- tourism product development utilizing vernacular architecture (including adaptive reuse of old/historic houses), landscape features including historic district assets, and intangible heritage in Axum and Lalibela;
- tourism product development including museums and old houses, in Addis Ababa and environs namely, Adadi Mariam, Melka Qunture, Tiya and Entoto;
- tourism product development and capacity development plans for the Southern, Western and Eastern routes.

It should be noted that all activities to be carried out on World Heritage sites will need to comply with the UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage of 1972.

Component 2: Market Development (US\$ 7.85 million)

9. For Ethiopia's tourism sector to grow, be sustainable and contribute to poverty alleviation, it will need to be competitive with other destinations available to travelers. To be competitive, the private sector will need to consistently deliver a competitive tourism product. In conjunction with the development of the tourism product (i.e., integrated destinations with attractions and travel services through Component 1), communication of the tourism offering through marketing and promotion is necessary. Component 2 will support both specific marketing and promotion programs as well as capacity building assuring marketing and promotion initiatives continue beyond the life of the project.

Subcomponent 2.1: Positioning and marketing (\$2.69 million).

10. In discussions with members of Ethiopia's tourism private sector, the challenge of overcoming negative images is voiced as an ongoing struggle. Field research indicates that operators are, in fact, facing a variety of challenges. First, Ethiopia suffers from being relatively unknown for its tourism assets. This is exacerbated by limited and poor quality information about the country's tourism offerings. Second, Ethiopia suffers from a lingering negative image attributed to recurring media images of political instability and food shortages.

11. Sustainable tourism which contributes to poverty alleviation requires development of a competitive tourism product appealing to potential travelers. To harness the economic value of integrated tourism development in component 1, it is crucial to communicate Ethiopia's tourism offerings to potential tourists. This requires establishing marketing programs and promotional systems supporting private sector competitiveness. Through this component, marketing and promotion activities will build capacity through technical assistance and introduction of best practices. Specific activities will enable public and private sector players in the tourism sector to craft Ethiopia's image positively and build market share through strategic promotional activities.

A. Positioning and marketing

12. This component's activities will enable Ethiopia to develop and implement strategies to attract specific target segments from key markets. Attracting target segments involves development of 1) a competitive position through defining target markets; 2) a strategic brand; 3) collaterals accessible and attractive to target markets; and 4) a program for marketing and promotion implementation.

13. Promotion and marketing activities will be coordinated by the Ministry of Culture and Tourism with private sector involvement through the establishment of a public/private partnership. Activities will support regional and local plans. On-going strategic guidance will be provided by the National Tourism Council chaired by the Minister of Culture and Tourism and comprised of key members of both the public and private sectors.

14. Traditionally, Ethiopia's tourism has attracted international visitors from European countries and the USA. Specifically, market research conducted as part of the WB's ESW efforts leading to this project, ranked source markets as follows:

Box 5: Tourism Markets		
Primary Markets	Secondary Markets	Emerging Markets
USA	Japan	China
UK	Netherlands	Russia
Italy	Canada	Norway
France	Spain	Sweden
Germany	Australia	
Saudi Arabia	Switzerland	
	Israel	

15. Tourism source markets are inherently dynamic. The current global crisis will have an impact on international travel which is likely to cause shifts in these source markets. Therefore, as part of this component, it is proposed that a detailed marketing strategy is developed identifying shifts in the market and focuses on the top five growth markets. The subsequent strategy will identify critical investments in the form of marketing collaterals; familiarization trips for journalists and international tour operators; and public relations initiatives supporting the improved positioning of the country's tourism sector. These efforts are also anticipated to build linkages with neighboring countries to facilitate collaborative marketing and promotion for multi-country itineraries and offerings. The strategy will be developed jointly as a public/private partnership with MOCT, Ethiopian Airlines and interested private sector players.

16. Determination of target markets is driven by analysis of traditional and emerging source markets attracted to Ethiopia's expanded tourism product. Development of an overall destination brand facilitates the delivery of a unifying message augmenting niche product (i.e. cultural heritage, nature-based tourism, etc.) promotion. The development of international standard promotional materials will capture and communicate tourism product attributes valued by target visitors. These will be made accessible to target markets through multiple channels. Marketing to the trade and specific tour operators will be facilitated through support of trade fair attendance serving targeted markets. Familiarization tours which enable both tour operators and media professionals to experience Ethiopia's product first hand, will also be supported to facilitate publicizing Ethiopia's tourism products to target segments.

B. Development of an e-commerce platform

17. The flexibility and adaptability of the internet has transformed global travel supply and demand patterns. From initial interest to booking specific arrangements to reporting ex post trip experiences, the internet is used by a diverse demographic of travelers. Online promotion for destinations, transportation, attractions, amenities and services is sophisticated and targeted. The lack of an online presence, as is the case for the majority of Ethiopia's tourism related MSEs, is a serious handicap for operators in today's marketplace.

18. Today's international tourists increasingly search for travel options via the web. For destinations and their related stakeholders to capture tourist expenditures, a presence on the web is vital. Therefore, it is also proposed to target and strengthen the marketing outreach of local hotels, guesthouses and other tourism businesses by building an online reservation platform and increasing the capacity of all enterprises involved in the tourism value chain. This effort will involve technical assistance as well as capacity building to assure sustainability of an e-commerce platform as detailed below.

19. To be competitive, tourism operators of all sizes in developed and developing countries need to have an established presence on the internet. Previous WB projects have supported the development of online platforms for tourism SMEs in Tanzania, Kenya and Mozambique. These projects have aided destinations and operators to communicate in a cohesive manner as well as to compete effectively.

20. Development of an online presence provides a focal point and hub for all stakeholders in a destination's value chain. Furthermore, the ability to "look and book" in one instance adds

greatly to a destination's popularity and individual operators' viability. While a significant number of leisure visitors to Ethiopia travel on packaged tours, a growing number of independent international travelers are making their own travel arrangements directly through the internet. Ethiopia's tourism sector is handicapped by a poor online presence in general. Individual operators are further challenged by not having links with established portals or being able to offer online booking options to travelers.

21. To address this limitation, this subcomponent will seek to:

- provide professional online e-marketing and booking services for accommodations, attractions and service providers who have not had access to the internet;
- create commercially-viable, locally-owned and operated e-marketplace operators (MPOs) which can continue beyond the ESTDP project timeframe; and
- incorporate and utilize online ratings for service quality and sustainable practices of tourism SMEs to drive continuous improvement and competitiveness with other destinations.

Sub-component 2.2: Linkages development program (US\$ 5.15 million).

22. This sub-component seeks (i) to support private sector initiatives to enhance the competitiveness of the tourism sector through a matching grant scheme, and (ii) to foster community involvement in the overall tourism sector activities. It will focus on backward linkages by addressing specific issues that hinder the ability of small businesses and communities to participate in tourism sector activities by helping them improve the quality of their products and services that can meet various segments of tourists segments. Such an improvement would allow the private sector to charge higher prices and the tourists to stay longer and spend more as a reflection of the quality of their visit experience.

Matching grant scheme (US\$ 3 million IDA funding and US\$ 3 million beneficiary contribution)

23. The vehicle to support private sector initiatives will be a matching grant entailing a 50%-50% cost-sharing scheme to support private sector initiatives aimed at improving Ethiopia's competitiveness through innovation and linkage strengthening. The matching grants will seek to finance projects (with both established and emerging entrepreneurs) that will allow entrepreneurs to increase, upgrade and innovate in the tourism value chain. The scheme will in particular help (i) upgrade technological and managerial skills, (ii) improve market intelligence and access, and (ii) foster backward and forward linkages within the private sector and eventually increase the spill-over effects of the entire sector. For example, the project could support private hotels plans in developing new amenities, upgrading the quality of their services offerings such as front-office systems, connection to World Hotel Link, entertainment services, or setting up focused training for their employees (e.g. restaurant and/or housekeeping staff), etc.

24. The application to the matching grant can come from an individual firm or an association representing a group of businesses (e.g. fruits and vegetables producers' association, hotels owners' association, tour operators association, etc). The applicant commits to bearing 50% of the cost of the proposed activity consisting of technical assistance or training to improve a product, a service or a process. The maximum cumulative grant per firm or group of businesses under common ownership or control will be US\$ 150,000.

25. The sub-component will be implemented by the PCU. A dedicated specialist in management of matching grants will be recruited for the task. The PCU and the MG specialist will be supported by an international expert for the development of differentiated travel and hospitality products particularly at the destinations the project focuses on. An implementation manual will be developed by the client governing the detailed procedures about the screening process including the preparation of a comprehensive business plan that shows the improvements the support brings to the beneficiary firms.

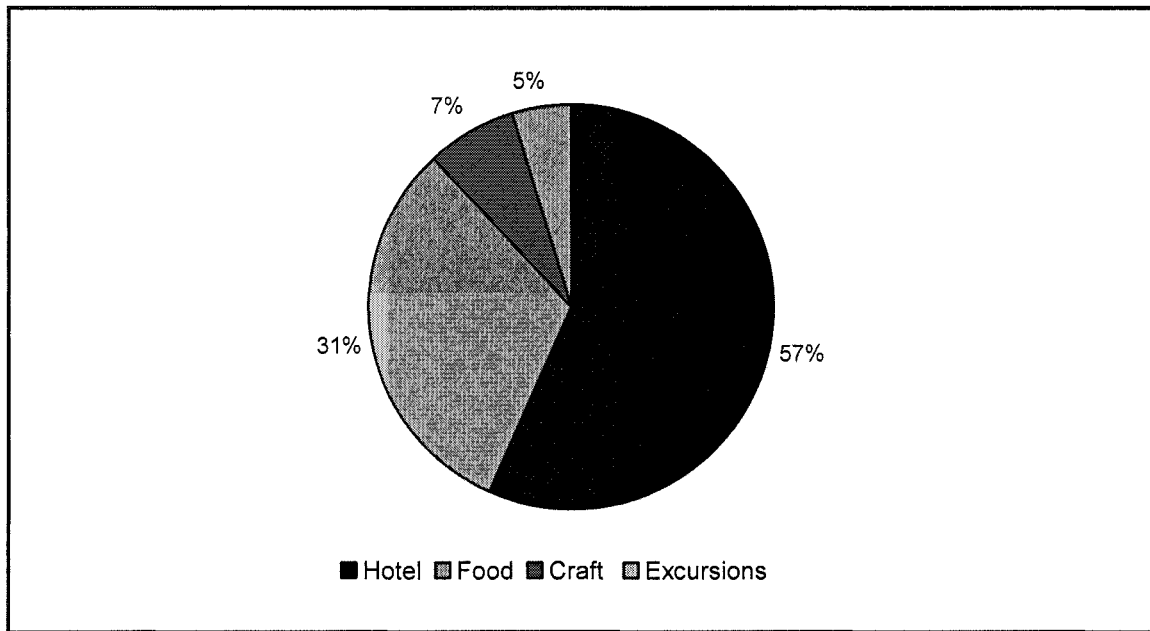
26. Expected achievable outcomes will be expressed in measurable indicators. The net outcome of the intervention will be the provision of improved products and services to tourists at the destinations which lead to more spending and longer stays. The PCU will provide free hand-holding support for the preparation of business plans that describe each beneficiary's proposal.

27. The PCU will promote the scheme in the major urban centers to ensure that private sector stakeholders such as hoteliers, restaurant owners, tour operators and guides, transporters and SME's in the tourism value chain are informed about the scheme through promotional materials, dissemination workshops and the media. The implementation manual will detail out the different steps from promoting the scheme, launching calls for proposals, screening of proposals and finalization of the business plan (the proposal by the firm) up to its finalization and approval by the a public-private committee to be chaired by an appointed official of the MOCT. The PCU will guide the process which will include the following steps:

- Preparation and adoption of an implementation manual, promotional materials and delivery of same;
- Appointment of private sector representatives to the approval committee;
- Launching calls for proposals with clear description of the scheme on who can apply and what framework to follow;
- Receiving and processing proposals from potential beneficiaries;
- Conducting diagnostic work at firm level to validate the quality of the proposals;
- Provision of hand-holding support to the applicants to refine and finalize the proposals
- Having the proposal approved;
- Preparation of agreement for the implementation and subsequent reimbursement of the cost as per the provisions of the scheme.

28. In addition to firms including SMEs, institutions that support the industry, such as those that promote setting of industry standards and norms, provide skills development, etc. will also be eligible to apply. In applying the resources to private sector initiatives, the following tourist spending structure, which shows that accommodation and food represent the largest spending share, as well as the need to work along value chains (instead of isolated players only) should be borne in mind:

Figure 6: Tourist Spending Structure



Source: ODI (2009), Ethiopia tourism pro-poor linkages.

Community involvement (US\$ 2.15 million)

29. Under this sub-component, targeting community involvement activities will be carried out, with a view to creating new job and economic opportunities for the communities which will be in direct contact with tourists and affect the visitors' experience in targeted destinations. Community engagement and opportunities will particularly materialize in the following ways:

30. Sector development policies, priority setting and project implementation: communities, through their leaders or representatives, will participate in the sector dialogue for policy and priority setting as well as project activities planning and periodic evaluation. That mechanism should ensure that options considered take into consideration the needs of the communities as well as sustainability requirements.

31. Employment opportunities in tourism businesses: the expansion of investment in targeted destinations is expected to generate new jobs for communities in various capacities. This project will participate in enhancing skills so that local communities can seize employment opportunities. Moreover, communities will be involved in the implementation of a number of project activities (infrastructure and other basic services) which will also contribute to facilitating their access to markets.

32. Supply of goods and services to tourism enterprises: communities will have the opportunity to provide goods and services in the tourism supply chain. In order to maximize the opportunities for communities to participate in the supply chain, the project will help improve the skills and enhance the quality of their products and services so that they can meet the market

quality requirements. This includes the training in crafts and other areas. Communities can also offer to tourists performing arts including dance, music, fine arts rooted in local cultures.

33. Direct sales of goods and services to tourists: this will include agricultural products, food and beverages, handicrafts, guiding, entertainment, mule renting and other transportation services, entertainment and recreation, etc.

34. Establishment of community-based businesses in the form of micro, small and medium sized enterprises or community-owned ventures. It is expected that community members would engage in activities such as accommodation establishment, catering, transport, retail outlets, guiding and entertainment. Nature eco-tourism of hiking and trekking, involving local guides, and village tourism, where small groups of tourists stay in a traditional village to learn about local life and culture (e.g. the UNWTO pilot project in Konso), may also expand in the future.

Component 3: Institutional Development and Capacity Building (US\$ 5.55 million)

35. Access to an adequate pool of properly trained human resources is vital to developing a sustainable tourism sector. Ethiopia's success in building tourism competitiveness hinges on trained staff and management providing targeted services expected by tourists. Such activity supports not only job creation, but also enables upward mobility as tourism expands and diversifies. Establishing and sustaining a significant tourism sector also requires strong public and private sector capacity. This component addresses institutional development activities for both sectors. Capacity building efforts are designed to support educational activities crucial for building the private sector.

Sub-component 3.1: Institutional Development (US\$ 3.92 million IDA financing and US\$ 1.50 million Government contribution)

36. This sub-component will support existing federal and regional government structures to create the enabling environment for tourism to thrive. The federal political system in Ethiopia has now established a Culture and Tourism Bureau⁴ and a Regional Tourism Council in every region and these institutions are charged with managing the tourism sector. Capacity, especially in the regions where ESTDP will be operational, needs targeted support in the areas of: tourism strategy development, policy and planning; technical guidelines; marketing and promotion; standards supervision and regulation; cultural heritage protection research; monitoring; training and education; tourist service and information centers; exhibitions; and international cooperation. In part, this demand will be met by long term technical assistance attached to the Ministry, but the bulk of the technical assistance will be tailored to individual regions' demands and targeted assignments.

37. Designed principally as a technical assistance package, this sub-component will enable capacity building in sector management through supporting existing federal and regional government structures to create the enabling environment for tourism to thrive. Culture and Tourism Bureaux and a Regional Tourism Councils, established in every region through federal

⁴ Following the " Business Process Re-engineering" , which is a thorough administrative reform at all three tiers of government (federal, regional levels and Woreda levels), the Bureaux are renamed either " Processes" or " Clusters" .

mechanisms, are charged with managing the tourism sector in conjunction with the Ministry of Culture and Tourism. Capacity, especially in the regions where ESTDP will be operational, needs targeted support in the areas of: tourism strategy development, policy and planning; technical guidelines; marketing and promotion; standards supervision and regulation; cultural heritage protection research; monitoring; training and education; tourist service and information centers; exhibitions; and international cooperation. In part, this demand will be met by long term technical assistance attached to the Ministry. Also, technical assistance will be tailored to individual regions' demands and targeted assignments.

38. The Ministry of Culture and Tourism is Ethiopia's youngest ministry with motivated staff committed to supporting the sector to achieve its full potential. This commitment is handicapped by limited technical resources and a low skill levels in certain areas. For example, there is an unquestionable need for improved statistical collection documenting tourism operational activity and the sector's contribution to the overall economy. In addition to statistical collection systems being updated, this component will support the development of a higher level of analysis and the timely distribution of findings. Such activities, guided by the general parameters of the UNWTO's TSA methodology, are critical to attracting investment and generating realistic assessments of the sector's progress. Establishment of improved statistical collection systems of travel and tourism statistics will enable greater integration with statistics collected by other ministries across the Government of Ethiopia (such as MoFED).

39. Under this sub-component, the Government of Ethiopia will finance the cost of resettlement compensation in Lalibela. The Federal Government has committed to making a budget of US\$ 1.50 million available for that purpose; and the Amhara Region may also contribute if necessary.

40. In conjunction with integrated destination development plans developed through component 1 activities, specific institutional development activities will include the following:

- Policy implementation frameworks including the development of a sector strategic plan and competitiveness enhancement,
- norms and standards for tourism establishments,
- formalization and institutionalization of the Tourism Council,
- set-up of and support to the Tourism Board,
- strengthening of the MOCT and Regional Tourism Bureaux,
- tourism statistics strengthening, and
- completion of the resettlement process (compensation cost covered by the Government).

Sub-component 3.2: Capacity building (US\$ 1.63 million)

41. Capacity building efforts in this sector to date include technical, vocational and university offerings by the public and private sector. Technical training programs, offered at sites throughout the country by the public sector, provide basic skills such as hygiene and food preparation techniques. Vocational training, emphasizing skills and knowledge, supports food preparation, service techniques and business fundamentals for tourism and lodging operations. Privately operated technical and vocational programs of varying quality are offered in Addis Ababa. Specialized university programs, designed to meet the needs of an expanding sector, are

now offered at four public universities. At all levels these programs are limited, suffer from inadequate resources and are challenged to find qualified teaching staff. Furthermore, for students and instructors alike, there is a large gap in the ability to secure practical experience in the industry. This contributes to a mismatch of the skills graduates offer and the needs of the industry.

42. The country's oldest and largest vocational level program, the Catering and Tourism Training Institute (CTTI) in Addis Ababa, is operated under the Ministry of Culture and Tourism. The Institute includes basic instructional areas. These are planned to be augmented by the renovation of the Genet Hotel into a formal teaching hotel. Efforts are also currently underway for the Institute to qualify to become a member of the Africa Hotel Schools Association. These changes will support a flow of graduates, with 2 or 3 year diplomas, to be entry level frontline workers and supervisors in the private sector. Upgrading at this institution will assure a continuous source of graduates educated by qualified staff at a specialized institution.

43. Overall activities in this component will be guided by an initial review of technical, vocational and university level offerings across the country with particular focus the target destinations of Lalibela, Axum and Addis Ababa. The private sector will be engaged to define their current and future needs in an effort to better align educational program objectives with desired outputs. To bridge strategic gaps, activities will involve: 1) development of qualified teachers who possess academic credentials, teaching capabilities and an adequate level of industry experience; 2) program upgrading through the provision of technical books and equipment needed for hands-on training and academic studies by students and instructors; and 3) facilitation of visiting instructors, industry experts and faculty to work alongside instructors at institutions for 3-6 months. Each of these activities is anticipated to trigger significant change improving the quality of training and education and, consequently, improving human resources employed in the sector.

Component 4: Implementation support and results monitoring (\$2.70 million)

44. This component will support (i) the operations of the project coordination unit (US\$ 2.06 million) and (ii) the set up of monitoring and evaluation systems in order to track results (US\$ 0.64 million). The implementation arrangements are based on the set-up of a Project Coordination Unit, staffed with first class professionals who will be competitively selected. They will be assisted by a few experts who will support the Directors of Regional tourism bureaux in key destinations, particularly the Amhara, Tigray and Addis Ababa Regions. The PCU's work will be advised and facilitated by a Steering committee composed of public sector and private sector representatives, and it will report to the Minister of Culture and Tourism. On the Ministry's behalf, the PCU will have the responsibility for project monitoring and evaluation. This component will particularly put an emphasis on fiduciary (procurement and financial management), monitoring and evaluation as well as safeguards capacities enhancement throughout project implementation.

Annex 5: Project Costs

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

Project Components	IDA			GOE	Beneficiaries	TOTAL US Million
	Local US Million	Foreign US Million	Total US Million	US Million	US Million	
Component 1. Destination Development	10.80	4.63	15.43	0.00	0.00	15.43
1.1. Rehabilitation of heritage sites and enhancement of basic infrastructure in selected destinations (Lalibela, Axum, Addis Ababa and environs)	7.23	3.10	10.33			10.33
1.2. Visitor services enhancement in selected destinations	2.80	1.20	4.00			4.00
1.3. Product development	0.77	0.33	1.10			1.10
Component 2. Market Development	5.33	2.51	7.84		3.00	10.84
2.1. Positioning and marketing	1.21	1.48	2.69			2.69
2.2. Demand driven linkages	4.12	1.03	5.15		3.00 ⁵	8.15
Component 3. Institutional Development and Capacity Building	4.08	1.47	5.55	1.50		7.05
3.1. Institutional development	2.94	0.98	3.92	1.50 ⁶		5.42
3.2. Capacity building	1.14	0.49	1.63			1.63
Component 4. Implementation Support	1.89	0.81	2.70			2.70
4.1. Implementation support	1.44	0.62	2.06			2.06
4.2. Results monitoring	0.45	0.19	0.64			0.64
Total Baseline Cost	22.10	9.41	31.52	1.50	3.00	36.02
Physical Contingencies		1.91	1.91			1.91
Price Contingencies		1.57	1.57			1.57
Total Project Costs	22.10	12.89	35.00	1.50	3.00	39.50

⁵ Private sector matching grants cost-sharing

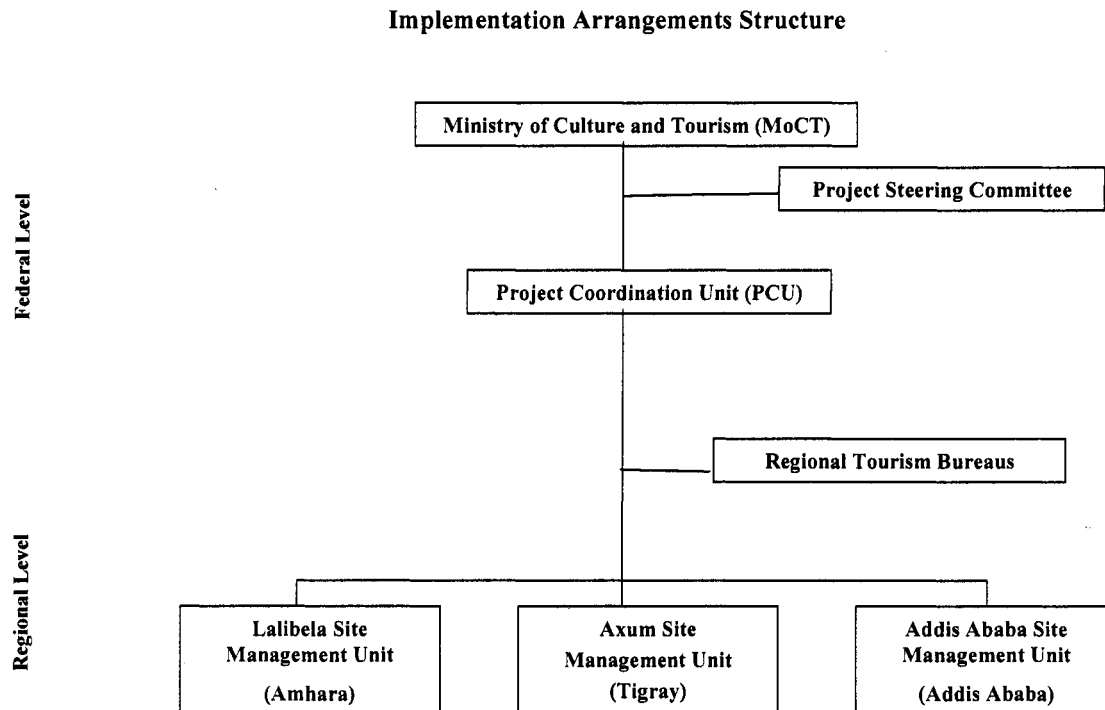
⁶ The Government contribution in the amount of US\$ 1.5 million will finance the resettlement cost.

Annex 6: Implementation Arrangements

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. The overriding principle guiding the institutional and implementation arrangements of the ESTDP is mainstreaming the operational responsibility to each Federal and Regional agencies that are responsible for the development of each of the destinations and sites along the tourism routes. It is also necessary to lay down the mechanism for carrying out capacity building and institutional strengthening of the institutions along the sector development tiers of government as well as streamlining cooperation between public and private actors to enhance the development process in a manner that would link communities, the broader private businesses and institutions working in the sector. While the MoCT will remain the overall executing body for the overall project, it will be important that the local institutions including regional and Woreda-level culture and tourism bureaux⁷ be the primary clients and participate in decision-making. At the same time, local private sector and community representatives should participate in the project implementation process. Particular emphasis is put on the work planning and reporting, monitoring and evaluation.

Figure 7: Implementation Arrangements Structure



⁷ In many instances, tourism bureaux have been renamed “tourism clusters” in the context of the recent Business Process Re-engineering (BPR).

2. The oversight of the Project will be formally delegated by the Minister of Culture and Tourism to a Project Steering Committee (PSC) chaired by the Minister of Culture and Tourism or his/her representative. The PSC will consist of Federal as well as Regional stakeholders including private sector and civil society representatives. The project team established by the Minister during preparation will act as an interface between the PSC, public and private stakeholders and development partners. The PSC will be assisted by a Project Coordination Unit (PCU) funded by the project. The option of setting up a PCU, instead of mainstreaming implementation, was taken in light of MOCT's limited capacity. The PCU⁸ will consist of a Project Manager, a Financial Management Officer and an Accountant, a Procurement Specialist and an Assistant Procurement Specialist, a Monitoring and Evaluation Specialist, a Matching Grants Specialist, a Civil Engineer and an Administrative Assistant. They will be located within MOCT. The Government will provide the office space and has already allocated vehicles from the Cultural Heritage Project to the ESTDP preparation team.

3. For the purpose of effective implementation and speedy disbursement, the PCU will be dedicated exclusively to the management of the ESTD Project and will be staffed with dedicated full-time professional personnel to be recruited on competitive basis. The dedicated staff of the Project will be contracted for one year renewable upon satisfactory performance until the end of project implementation.

4. Site Management Units (SMUs) will be established in Axum, Lalibela, and Addis Ababa and environs to closely oversee their respective implementation activities. The SMUs will consist of an Operations Officer and an Accountant. They will report administratively to the PCU, but they will work closely with Regional and Woreda level Tourism Office Heads, and regional stakeholders including private sector and community representatives.

6. The PCU will be responsible for handling procurement and FM functions for the project. A tendering committee composed of some members of the MoCT tendering committee and the PCU procurement and FM specialists would be responsible for evaluation of bids, both for selection of consultants, as well as goods and civil works procurement. Representatives of end users of the procured services, goods or works may participate as members of the tendering committee as required to ensure that the procurement is done according to specified needs. Final decisions on procurement will be made by the tendering committee and representatives of the respective regional and/or destination/Woreda level representatives. The detailed procedures to be followed are outlined in the Project Implementation Manual (PIM).

7. A Project Implementation Manual including a Project Implementation Plan and procedures pertaining to Financial Management, Procurement, Monitoring and Evaluation and Administrative aspects will be finalized by project effectiveness. The operation of the matching grant scheme will be included as well. The PIM will be specific on periodic reporting aspects throughout the life of the project and will include annual project performance assessments covering the various project components. A mid-term review will be carried out by end May 2012 and, in addition to assessing progress, will determine if there is any need to make changes to the project.

⁸ The PCU's Accountant and Matching Grants Specialist will be brought on board upon project effectiveness.

8. The PCU will be responsible for conducting M&E activities. Baseline data collection for all the agreed indicators have been established and the PCU will ensure that annual surveys and other means of performance monitoring are deployed in a timely manner. An outcome-oriented approach has been developed that would allow corrections during implementation to achieve the objectives.
9. Project impact data collection will be mainly the responsibility of the PCU and the Statistics Department of the MOCT. Key outcome indicators, namely tourist arrivals, foreign exchange earnings, and jobs will be reported on at least once a year. Detailed outcome and output indicators are provided in the Results Framework. Lessons learned from the M&E process will be used to inform and improve project implementation at the federal and local (regional and destination/Woreda) levels.
10. The PCU will be responsible for preparing all periodic reporting requirements, including progress of different activities in the annual work plan, key performance indicators, financial reports and annual audits, procurement and any administrative matter.
11. The Government has indicated the intention to actively involve the private sector and communities in an active policy dialogue as well as in project work planning and monitoring and evaluation.

Annex 7: Financial Management and Disbursement Arrangements

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

Introduction

1. The financial management (FM) assessment is conducted in line with the Financial Management Practices Manual issued by the FM Board on 3 November 2005. The objective of the assessment is to determine whether the implementing entities have acceptable financial management arrangements, which will ensure: (i) the funds are used only for the intended purposes in an efficient and economical way; (ii) the preparation of accurate, reliable and timely periodic financial reports; (iii) ensure that funds are properly managed and flow smoothly, rapidly, adequately, regularly and predictably to implementing agencies at all levels (federal and regional); (iv) enable project management to monitor the efficient implementation of the project and (iii) safeguard the entities' assets and resources.

2. As part of the FM assessment, the financial management team visited the Ministry of Culture and Tourism (MoCT). Furthermore, the assessment made for the PPF of the same project and the experience of other projects implemented by MoCT have been considered.

Country Issues

3. The Government has been implementing a comprehensive public Financial Management (PFM) with support from Development Partners including the Bank. The main instrument used for effecting Ethiopia's PFM reforms has been the Expenditure Management and Control sub-program (EMCP) of the Government's Civil Service Reform Program (CSRP). This is being supported by the IDA financed-PSCAP and further support is envisaged under the PBS II Project.

4. The latest PFM study for Ethiopia was completed in 2007 using the Public Expenditure and Financial Accountability (PEFA) PFM performance measurement framework. The assessment was done at the federal and regional levels (covering 7 regions) and two separate reports were issued. The PFM study notes that Ethiopia has made significant progress in strengthening PFM in recent years at both federal and regional levels. Satisfactory progress has been made in budgeting and accounting reform but the adequacy and quality of budget reporting needs further improvement. The classification of the budget meets international standards and the information included in the budget documentation is of good quality. The fiscal relations between the federal government and the regions are transparent. The budget process is well ordered with the existence of a budget calendar generally adhered to, and a budget circular issued to budgetary institutions. Cash flow management is not fully established. Government posts financial information including the annual budget on its website and also publishes the same information in the official Gazette, but there is scope for improvement in public access to fiscal information. Payroll and procurement controls are satisfactory while control for non-salary expenditure shows some weaknesses. There is need for further improvements in financial reporting (reducing delays in in-year and annual financial reporting), internal audit, external audits and scrutiny of public finances. The first phase of the reform (transaction platform) has taken place through budgeting, planning, accounting, and information systems. The second

phase of the reform, the policy platform, is continuing at the sub-national level with reforms to the block grant mechanisms and a move towards more performance based budgeting. The government leadership and ownership regarding ongoing PFM reform efforts are both high.

5. The PFM study also notes that at the regional level, the status of PFM reform and performance varies between regions. Southern Nations, Nationalities and People's Region and Tigray have been the beneficiaries of investment and local initiatives to support PFM reform. They both show improvement in the overall public finance function and a consequent reduction in fiduciary risk. A few other Regions, such as Amhara and Oromia, have also shown significant progress in PFM while others are at an earlier stage of investment in PFM or have not yet commenced their plans and therefore have demonstrated less progress in PFM improvement. There have been improvements in some areas, including budgetary transparency in recent years, robust budget preparation, internal audit scrutiny and follow up, timeliness of in-year and annual financial reports, and mutual supportiveness of the federal and regional Auditor Generals. Nonetheless, the report noted that the quality and nature of internal audit needs to be improved. Untimely clearance of suspense accounts and significant delays in producing timely in-year and end of year information in some regions are also major weaknesses. There are capacity issues in reviewing annual budgets. It was noted that supplementary budgets are endorsed by the Parliament as needed. There continue to be capacity and staffing issues in areas such as audit in all the regions. An insufficient number of qualified professional staff at the sub-national level, particularly at the woreda level, and lack of some basic office infrastructure is a major challenge. It must be noted that there is a shortage of qualified accountants and auditors in the country.

Risk Assessment and Mitigation

6. The programs perceived risks at assessment are outlined in the following table:

Table 4: Risk assessment

Risk	Risk Rating	Risk Mitigating Measures	Residual Risk Rating	Conditions for Effectiveness (Y/N)?
Inherent Risk				
Country Level- Weak capacity including shortage of qualified accountants and auditors. There is a weak control environment with weaknesses observed, lowly paid civil service, inadequacies in the public accounting system, and weak internal and external auditing capacity.	S	The noted weaknesses are being addressed by the ongoing Civil Service Reform Program supported by PSCAP. The PBS II includes a sub component that will support external audit capacity building.	M	N
Entity Level- Lack of adequate skilled man power throughout the entity.	S	MoCT has experience in implementing one Bank financed project and other donor financed projects.	M	N

Project Level- Project activities are implemented in three destination sites. Delay in reporting and auditing	S	Fund flow arrangement and reporting requirement will be made clear. Training will be given to staff on bank procedures and IFR preparation. External auditors will be recruited within 2 months after effectiveness.	M	N
Overall Inherent Risk			Moderate	
Control Risk				
Budgeting-	L	Budgeting mainly follows the government's budgeting system.	L	N
Accounting – Accounting treatment and recording vary among implementing entities. Lack of required skill and manpower. Staff not trained in Bank procedures.	S	A new financial management manual will be prepared for the project by project effectiveness. Finance officers will be recruited at the PCU and at the other Site Management Units (SMUs). One FMS for the PCU at MoCT and three accountants for the destination sites will be recruited.	M	N Y

Internal Control- The internal audit departments may not review the activities of the project.	S	<p>PBS II has a component to strengthen internal audit and the general internal control environment in Ethiopia.</p> <p>The Internal audit department of all implementing entities will incorporate the project in their annual work plans.</p> <p>The financial management manual will in detail show the internal control mechanisms and procedures.</p>	M	N
<p>Financial Reporting- Since implementation is spread out to three destination sites, reporting may be delayed.</p> <p>The quality of the financial reports may not be up to standard</p>	S	<p>The FM manual will lay out the detail dates for submitting the report of all tiers.</p> <p>IFR format has been agreed with MOCT.</p> <p>Training will be given by the Bank on preparation of IFRs.</p>	M	N
Auditing- Delays in submission of external audit reports.	S	<p>Audit TOR for auditors will be agreed in advance. Auditors will be recruited within two months of effectiveness.</p> <p>MoCT implemented CHP submitted all reports on time.</p>	M	N
Overall Control Risk			Moderate	
Overall Project risk rating			Moderate	

7. Considering the above risk assessment and mitigation table, the overall residual risk of the project will be Moderate after the risk mitigation measures are undertaken. Any additional risks encountered during the project implementation will be assessed and requisite mitigation measures developed to address such risks.

Strengths and Weaknesses of Financial Management

8. As noted in various reports, the country's discipline in executing budget, classification system and compliance with the existing Government regulations are the major strengths in implementing the project. The Government's existing arrangements are already being used in a number of projects, including PSNP and PBS which is currently under implementation.

9. The main weaknesses for the FM arrangements continue to be shortage of qualified accountants at the federal and regional levels. Preparation and submission of quarterly IFRs could be a challenge due to in the spatial distribution of the site management units. This may also delay the submission of the audit report on time.

Table 5: Weaknesses and Action Plan

<i>Significant Weaknesses</i>	<i>Action</i>	<i>Responsible Person</i>	<i>Completion Date</i>
The FM manual needs to be prepared	Prepare FM manual	MoCT	Before effectiveness
Lack of adequate and skilled manpower.	Recruit one FMS for the PCU and three SMU Accountants with clearly defined TORs which were approved by the Bank	MoCT	Before effectiveness
Lack of submission of regular financial information from the PCU	Closer follow-up on the submission of IFRs Training staff on IFR preparation Indicating on the FM manual the submission date of each tier.	MoCT, WB	Regular One month after effectiveness.
Timely submission of audit reports	Appoint external auditors (OFAG) within 2 months of effectiveness. Audit terms of reference.	MoCT	Within 60 days of effectiveness. Agreed upon at negotiations.

Implementing entities

10. The MoCT, at the federal level, will take the overall responsibility for project implementation. The Project coordination unit (PCU) that is established to oversee the project within the ministry will have the responsibility for coordinating project implementation in close collaboration with site management units at relevant destinations, i.e. Axum, Lalibela and Addis Ababa. The site management units will be placed in Lalibela culture and Tourism office, Axum Tourism development, Axum cluster and the Addis Ababa Culture and Tourism bureau. A Project Steering Committee will be established to provide strategic guidance to the PCU, review and approve annual work plans and progress reports.

Budgeting

11. The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. Budget is processed at federal, regional, zonal (in some regions), *woreda* and municipality levels. The federal budgeting process usually begins by issuing the budget preparation note to the Budgetary Institutions. Based on the budget manual, the Budgetary Institutions prepare their budgets in line with the budget ceilings and submit these to MoFED within six weeks following the budget call. The budgets are reviewed at first by MoFED and then by the Council of Ministers. The final recommended draft budget is sent to parliament around early June and expected to be cleared at the latest by the end of the fiscal year.

12. MoCT prepares annual budgets based on its strategic plans following the government budget processes. All processes and the regions regarding this particular project under MoCT involved in this project will submit their annual plans to MoCT. These budgets are prepared by experts in each area of the budget. MoCT will consolidate the budgets received and will present the same to the minister and the management team. A thorough discussion will be held among the different processes and then the minister will approve the budget and present the same to MoFED. MoFED after analyzing the budget request and after holding discussions with the ministry will approve the budget. The project budget will be included in the annual budget proclamation of the federal government, under the name of MoCT.

13. The project prepares regular reports comparing actual and budget and submit the same for management and donors for information and decision making. There is a section of budget preparation and control under the finance department which is handling this responsibility. The financial management manual will explain the detailed budgeting and budget control processes in the project.

Accounting

14. MoCT through the PCU will be responsible for the overall financial management of the project. MoCT follows the government accounting system – double entry accounting system on a modified cash basis starting from July 2002. MoCT uses the government's financial management manual which spells out important internal control and accounting procedure. In order to have consistency in the accounting and reporting of all entities involved in this project, it needs a financial management manual which outlines the necessary control arrangements and

also the accounting policies, procedures, chart of accounts, reporting formats etc. The manual will be prepared by project effectiveness and will have to be acceptable to IDA.

15. Integrated Budget and Expenditure (IBEX) accounting system is used for recurrent and capital budgets. A computerized accounting system will be used by MoCT to record transactions and for reporting. As is the practice in other IDA-funded projects, Peach Tree accounting system will be used for accounting and reporting under this project. This software will also be introduced to all SMUs for efficiency and consistency. Finance staff will be trained on the use of the software within one month after effectiveness.

16. Each of the implementing agencies is responsible for maintaining the project's record and documents for all financial transactions occurred in their offices. These documents and records will be made available to the Bank's regular supervision missions and to the external auditors.

17. MoCT currently has 10 staff in the accounts department, three holding BA degrees and seven holding Diplomas in accounting. Four of the staff can handle the Peach tree software very well. The PCU will hire a financial management specialist with good qualifications and experience in bank procedures, and s/he will be assisted by an accountant at the Federal level and three other accountants at the key sites, i.e. Lalibela, Axum and Addis Ababa. The recruitment of the accountant at federal level will not be a condition of effectiveness. The accountant will join the PCU once the need arises from project implementation. Support will be provided to strengthen the capacity of financial officers' at all relevant levels of project implementation. This will in particular entail training all finance officers with the newly developed financial manual, creating awareness of the overall project and also training on World Bank policies and procedures.

Internal Control and Internal Auditing

18. Internal control comprises the whole system of control, financial or otherwise, and has been established by management in order to (i) carry out the project activities in an orderly and efficient manner, (ii) ensure adherence to policies and procedures, (iii) ensure maintenance of complete and accurate accounting records, and (iv) safeguard the assets of the project.

19. Internal control arrangements will be spelled out in the PIM and the Project Coordinator along with the FM Officer will be responsible for their implementation. The New FM manual needs to cover thoroughly the important internal control areas such as segregation of duties, physical control of assets, authorization and approval, clear channels of command, arithmetic and accounting accuracy, integrity and performance of staff at all levels, supervision, etc. In addition to this, MoCT will make sure that all of the crucial posts are filled immediately by competent staff if these posts are to be found vacant at any time. MoCT has an internal audit department performing post audit activities on all the financial transactions of the entity. The internal audit department at MoCT is adequately staffed for reviewing the activities of this project. The internal audit department will include the project in their work plans and assist the project in its implementation. The internal audit department should also help in following the rectification of irregularities noted in the external auditor reports.

20. The government Civil Service Reform Program is building the capacity of internal audit in the country. So far, internal audit manuals have been issued and training has been provided to internal auditors. The improvement in internal audit has been recognized in recent diagnostic works, e.g., the FA assessment.

Funds Flow and Disbursement Arrangements

21. This project will provide funding to MoCT, which will be the main implementing agency together with the site management units. SMUs will receive funding from the MOCT's PCU and maintain accounts in local currency.

Disbursement Mechanism

22. The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment.

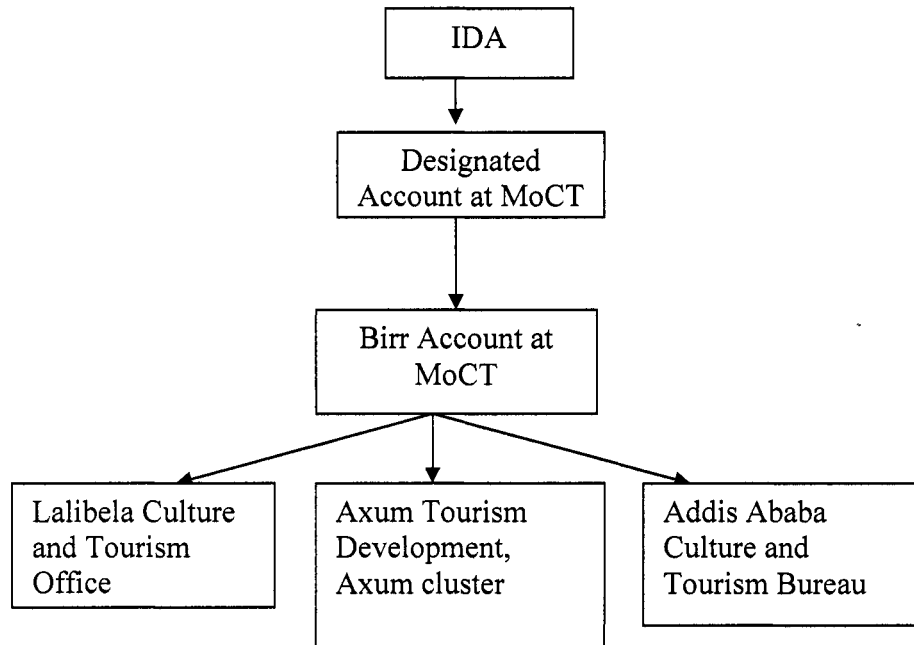
Designated Account and Disbursement Method:

MoCT will open a new Designated Account denominated in US Dollars at the National Bank of Ethiopia or it can use the designated account already opened for the PPF. Local Account in Birr will also be opened to receive transfer from the USD account. The local account in Birr would finance all eligible project expenditures at the respective offices and would be used by MoCT to transfer funds to the site offices. The authorized ceiling of the Designated Account would be equivalent to 6 months of project operations and would be US\$ 3.5 million.

23. Three regions (Lalibela, Axum and Addis Ababa) will open a separate project Birr accounts to receive funds from MoCT through the PCU. Advances to the SMUs will be based on the approved work plan. The initial advance will cover four months expected expenditures and the subsequent transfer will be based on actual expenditures justified through statement of expenditures. Whenever MoCT makes transfer of fund to the SMUs it will notify the respective regional tourism bureaus of the date and the amount for monitoring purposes.

24. Disbursement of IDA funds to the Designated Account will initially follow Transaction-Based Disbursement through the use of statement of expenditures (SOE). The Transaction-Based Disbursement Method will be used during at least the first two years of implementation. In order for the project to move from transaction based disbursement to report based disbursement where six monthly forecasts of expenditure are paid quarterly hence ensuring the project has adequate funding at all times, the project will during implementation have to meet the following requirements: (a) sustain satisfactory financial management rating during the project's supervision; (b) submit Interim Financial Reports consistent with the agreed form and content within 45 days of the end of each reporting period, and (c) submit all expected Audit Reports by the due date. The fund flow arrangement for the project is summarized in the following chart:

Figure 8: Flow of Funds Arrangements



25. The allocation of IDA Credit will be based on the project components. This will facilitate the monitoring of the project performance indicators as well as financial aspects since expenditures are directly allocated to components. Requests for replenishment of the Designated Account for expenditures incurred under each component will be based on expenditures incurred at the implementing agencies for which justification of utilization has been provided.

26. Retroactive financing, up to US\$3.5 million equivalent, has been provided for in the DFA to cover all eligible expenditures not funded under the PPF taking place between Board approval and effectiveness. This is particularly justified by the narrow scope of the PPF and the large amount of activities that are expected to enter into implementation in early FY10.

Reporting on use of IDA Credit and Grant Proceeds and SOE limits

27. Disbursements for all expenditures should be made against full documentation except for contracts valued at less than as follows: i) US\$ 200,000 for works; (ii) US\$ 200,000 for goods; (iii) US\$ 100,000 for consulting firms and (iv) US\$ 50,000 for individual consultants (v) training and workshops, and operating costs on all contracts regardless of the amount which will be claimed on the basis of Statement of Expenditures (SOEs). All supporting documentation for SOEs will be retained at each of the offices where financial transactions occurred. They will be kept in a manner readily accessible for review by regular IDA missions and internal and external auditors. The statement of expenditures will be included in the Withdrawal Applications that will be submitted to IDA on a monthly basis.

28. The supporting documentation for reporting eligible expenditures paid from the Designated Account will be summary reports and records evidencing eligible expenditures for payments against contracts valued above the SOE thresholds defined above. The supporting documentation for direct payment requests should be records evidencing eligible expenditures (i.e., copies of receipts, suppliers' invoices, etc). The project will submit a bank statement and a reconciliation of the Designated Account together with the Withdrawal Application on a monthly basis.

Minimum Value of Application

29. The Minimum Value of Applications for Direct Payment and special commitments is US\$ 100,000..

30. The Project will have a life of five years. The IDA Credit would be disbursed against the categories shown in the table below in a proportionate manner across all disbursement categories. Disbursements will be made in accordance with procedures and policies outlined in the Bank's Disbursement Handbook.

Table 6: IDA Credit Proceeds Allocation

Expenditure Categories	Credit US Millions	Percentage of Expenditure to be Financed
(1) Works	14.29	100%
(2) Goods	2.22	100%
(3) Services	7.67	100%
(4) Training	2.27	100%
(5) Matching Grant	3.00	100%
(5) Operation Costs	1.37	100%
(6) Advance PPF	0.70	
(7) Unallocated	3.48	
TOTAL AMOUNT	35.00	100%

Financial Reporting

31. Financial reports will be designed to provide quality and timely information on project performance to project management, IDA and other relevant stakeholders. The existing accounting and reporting systems of MoCT are capable of producing the required information regarding project resources and expenditures. Duties of each implementing entity in the preparation of the regular financial reports are explained below.

32. Based on the regular reports received from Site Management Units, it is the responsibility of the PCU in MoCT to prepare and consolidate quarterly Interim un-audited

Financial Reports (IFRs) and annual accounts and facilitates the external audit of the consolidated accounts.

3. The *SMUs* are responsible for preparing and submitting quarterly reports to the Federal PCU at the MoCT. The SMUs will also submit the same report to their respective regional tourism offices for monitoring purposes.

33. On the basis of financial reports received from destination CU, MoCT will submit a consolidated IFR to IDA within 45 days after the end of each quarter. Timeliness of the financial report is crucial and hence due attention will be given to submission of regular financial reports to the higher tiers. This will be conducted within the timeframe prescribed in the financial management manual.

34. In compliance with International Accounting Standards and IDA requirements, MoCT will produce annual financial statements. These include: (i) a Balance Sheet that shows Assets, Liabilities and Fund balances; (ii) a Statement of Sources and Uses of Funds showing all the sources of Project funds, expenditures analyzed by Project component and or category; (iii) a Designated Account Activity Statement; (iv) a Summary of Withdrawals using SOE, listing individual withdrawal applications by reference number, date and amount; and (v) Notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements. These financial statements will be submitted for audit at the end of each year.

Auditing

35. The Office of the Federal Auditor General (OFAG) is responsible to carry out the audit of all the financial transactions of the federal government and subsidies to the regions. Each of the regions has regional auditor general responsible to audit financial transactions in the region. OFAG usually delegates its responsibility mostly to the Audit Services Corporations (ASC), the government owned audit firm, and in some cases to private audit firms to carry out the audit of donor-financed projects. The ASC and most of the private audit firms conduct audits in accordance with international standards on auditing. For this project, OFAG will assign external auditors acceptable to IDA. The project external auditors with qualifications, experience and TORs satisfactory to IDA should be recruited within 60 days after IDA Credit effectiveness. The audit TOR were agreed at the time of financing agreement negotiation.

36. According to the audit policy of IDA, MoCT will prepare consolidated project annual accounts, including all the statements explained above, and the auditors will express a single opinion on each of these consolidated accounts.

37. MoCT will submit to IDA audit reports six months after the end of each fiscal year, which ends on 7 July of each year. MoCT will also insure that all the audit findings identified by the auditors are resolved on a timely manner since this practice will enhance accountability and internal control arrangements.

Report	Responsible Agency	Fiscal Year Ending	Due Date
Consolidated opinion on the project financial statements	MOCT	July 7	Within 6 months of end of fiscal year

Financial Covenants and other agreements

38. Financial management-related covenants in the financing agreement include: (i) maintenance of a satisfactory FM system; (ii) submission of quarterly IFRs to IDA forty five days after the end of each quarter period and (iii) submission of the audited Project accounts to IDA six after the end of each fiscal year. The fiscal year ends on 7 July of each year. The audited financial statement will include Government contribution to the project financing.

39. MoCT in consultation with OFAG will appoint project auditors for this project within two months of effectiveness.

Financial Management Action Plan

40. The action plan below indicates the actions to be taken for the project to strengthen its financial management system and the dates that they are due to be completed by.

Table 7: Financial Management Action Plan

	Action	Date due by	Responsible
1	Appointment of external auditors for the project	Two months after effectiveness	MoCT
2	Recruit the FMS for the PCU at MoCT and an Accountant for each of the three Site Management Units.	Before effectiveness	MoCT
3	Prepare financial management manual for the project	Before effectiveness	MoCT
4	Training of all finance staff on Bank procedures and IFR preparation	One month after effectiveness	MoCT/WB

Supervision Plan

41. The project's risk identification sheet shows that the financial management residual risk rating is moderate. In the circumstances, at least one full supervision mission will be undertaken in a year and at times short missions will be undertaken. Supervision activities will include: i) review of quarterly IFRs; ii) review of annual audited financial statements as well as timely follow-up of issues arising; iii) transaction review; iv) participation in project supervision missions as appropriate; and v) updating the FM rating in the Implementation Status Report (ISR).

Annex 8: Procurement Arrangements

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

A. General

1. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; revised October 01, 2006 and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004; revised October 01, 2006, and the provisions stipulated in the Legal Agreement. The national procurement system and the provisions of *Proclamation 430/2005 of January 2005* and *Federal Public Government Procurement Directive* of July 2005 have been reviewed by the Bank. Based on the review, contracts that will not be procured under International Competitive Bidding (ICB) and consulting assignments that will not involve international competition may follow the Recipient's federal procurement procedures, subject to the following additional procedures: (i) the Recipient's standard bid documents for procurement of goods and works shall be used; (ii) if pre-qualification is used, the Bank's standard prequalification document shall be used; (iii) margin of preference shall not be applicable; (iv) bidders shall be given a minimum of 30 days to submit bids from the date of availability of the bidding documents; (v) use of merit points for evaluation of bids shall not be allowed; (vi) foreign bidders shall not be excluded from participation; and (vii) results of evaluation and award of contract shall be made public; (vii) In accordance with para.1.14 (e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (a) the bidders, suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have said accounts and records audited by auditors appointed by the association; and (b) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to an obstructive practice as defined in paragraph 1.14(a)(v) of the Procurement Guidelines. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. **Procurement Environment:** Public procurement in Ethiopia follows the federal structure of the government. Procurement at the federal level is governed by the procurement code issued by the federal government on January 12, 2005. At the regional level the procurement code is enacted by the regional governments, and the procurement directive is adapted to each region based on the model prepared by the federal government.

3. **The Country Procurement Assessment Report (CPAR)** conducted in 2002 identified weakness in the country procurement system. The government has taken the following actions based on the recommendation of the CPAR: (i) a new procurement code have been enacted at the federal level. All regions and city administration, except Dire Dawa City Administration, have also enacted their procurement codes. Dire Dawa City Administration follows the federal

procurement law and directives issued by MoFED; (ii) an independent Public Procurement Agency (PPA) with monitoring functions has been established at the federal level; (iii) new Federal Procurement Directives were issued in July 2005; (iv) standard bid documents for procurement of works, goods, and selection of consultants have been prepared and distributed to federal and regional government bodies; and (v) procurement has been fully decentralized to implementing agencies. However, gaps in capacity building still remain, as the large training program envisaged in the CPAR action plan could not be implemented in full. In addition, independent regulatory bodies (Regional Public Procurement Agencies) have not been established in the regions. It has been reported that professional staff have been assigned in some of the regions like the Oromiya and region, and that similar efforts have been made at the SNNPR, Amhara and Tigray regions. However, there is a need for further actions to make the regulatory agencies at each of the regions fully staffed and functional.

Procurement of Works: Works to be procured under this project would include:

- (a) maintenance and improvement of historic churches,
- (b) delineation of World Heritage boundaries, and
- (c) development of satellite sites in Lalibela so as to protect the cultural assets while improving the quality of the product to allow better tourist experience and longer stay;
- (d) the improvement of basic infrastructure entailing (i) the paving of current core site road (which will would be restricted to walking and animal-based transport) and the construction of two short by-pass roads --3km and 2.5 km respectively—to establish the links between the three tourism zones around the churches zone area, (ii) the improvement of water supply, sanitation and solid waste management, (iii) the improvement of the Yemherana Kristos gravel road (12 km);
- (e) improvement of the museum, stelae field, monuments and attractions in Axum;
- (f) renovation and improvement of the national museum in Addis Ababa and environs;
- (g) environmental restoration and protection works at the core sites and buffer zones;
- (h) Some other construction works;
- (i) Other similar improvement of tourist attraction sites, and environmental works.

4. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National SBD agreed with or satisfactory to the Bank. Detail implementation arrangements will be indicated in the Procurement section of the Project Implementation Manual (PIM)

5. **Procurement of Goods:** Goods procured under this project would include: Garbage and sewage trucks, Furniture and equipment, vehicles, office equipment, materials, Films and other Exhibition items, IT Equipment, and others. As the nature of the project is a kind of demand driven, the other necessary goods procurement may be included as found necessary in due course to meet the objectives of the project. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank.

Procurement of non-consulting services: There will be a number of non-consulting services envisaged in this project as listed in the attached indicative Procurement Plan. All Sub-component 2, Visitor services enhancement in selected destinations will be non – consultancy

services. This sub-component will be comprised of the following activities: enhancement and modernization of tourists/visitor facilities, including interpretation services in key destinations (Lalibela, Axum, Addis Ababa), information and guidance enhancement, documentation and library exhibitions in historic sites, and handicraft development.

6. The procurement may be done using the Bank's Sample Bidding Documents (SBD) for non-consulting services or other acceptable standard for the Bank for all ICB and National SBD as agreed with or found satisfactory to the Bank

7. **Selection of Consultants:** Selection of consultants shall be carried out using Bank's standard Request for Proposals (RFP). Consulting firms for services estimated to cost more than US\$ 200,000 equivalent would be selected through Quality and Cost Based Selection (QCBS) method. Consulting firms services estimated to cost less than US\$ 100,000 equivalent may be selected using the Consultants' Qualification (SBCQ) method. Individual consultants will be selected on the basis of their qualifications in accordance with Section V of the Bank's Consultants Guidelines. Consulting services for audits and other services of a standard nature or routine nature may be procured using the Least Cost Selection method. Single source selection may be used where it can be justified. Short lists of consultants for services estimated to cost less than US\$ 200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultants Guidelines. When there is need for capacity reasons, CSOs, universities, research institutions, public training institutions, or any special organizations could be employed to assist where they have an advantage over commercial firms. Venues for workshops and training and purchase of materials will be done on the basis of at least three quotations, but annual training plans and budget shall be prepared and approved by the Bank in advance of the training.

8. **Operating Costs:** Operating costs for the project shall consist of operation and maintenance costs of equipment, communication charges, transportation costs and travel allowances to carry out field supervision, office supplies, fuel and other consumables among others. These will be procured using Government procedures as described in the ESTDP PIM

9. The procurement process/procedures and SBDs to be used for each procurement method, as well as model contracts and formats for each procurement process are presented in the ESTDP PIM.

10. **Training and workshops** will be based on the capacity building needs. The training would include short term (study tour exchange visits, training of trainers etc) programs in the areas of fiduciary management (Financial & Procurement), as well as human resources, tourism and cultural heritage management. Venues for workshops and training and purchase of materials will be done on the basis of at least three quotations. The selection of institutions for specialized training will be done on the basis of quality and therefore the QBS method will be used. Annual training plans and budget shall be prepared and approved by the Bank in advance of the training.

11. In accordance with para.1.14 (e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (i) the bidders , suppliers, contractors and sub-contractors shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to

have said accounts and records audited by auditors appointed by the association; and (ii) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to an obstructive practice as defined in paragraph 1.14(a)(v) of the Procurement Guidelines.

B. Assessment of the agency's capacity to implement procurement

12. The scope and objectives of this procurement capacity assessment is to:

- evaluate the capacity of the Ministry of Culture and Tourism (MoCT) to manage procurement in general and the Bank-financed Projects in particular, with particular emphasis on the intended procurements under the Ethiopian Sustainable Tourism Development Project;
- assess the risks (institutional, political, organizational, procedural etcetera) that may negatively affect the ability of the ministry to carry out the procurement process;
- develop an action plan to be implemented as part of the project to address deficiencies and minimize the risks revealed by the assessment;
- propose a suitable procurement supervision plan for the project considering the relative strengths, weaknesses and risks revealed by the assessment;

13. Existing procurement Unit: There is a procurement unit in the organizational structure of the ministry. The existing unit has very limited experience in procurement of Bank- financed contracts and has no adequate skilled staffs. In light of the current capacity limitations, the ministry has already established a separate Project Coordination Unit (PCU) for ESTDP which has a procurement team in it. Therefore the procurement activities of the project will be carried out by ESTDP PCU. The PCU, that will be accountable to the Ministry of Culture and Tourism (MOCT), is being staffed and will be responsible for the implementation of the project. The PCU will have one procurement specialist and an assistant procurement officer for the duration of the project or until all the procurement activities will be completed. The PCU may bring on board temporary expertise as needed.

14. An assessment of the capacity of the PCU of the MoCT to implement procurement actions for the project has been carried out by the Country Procurement Specialist during appraisal. The assessment included the organizational structure of the procurement unit to implement the project, staff availability, institutional arrangements, and experience and procurement environment in general to carry out efficient procurement. The following key capacity indicators have been assessed in the newly established PCU of MoCT:

15. Legal Aspects and Procurement Practices: the legal corporate status of the agency being government department, its procurement practices and procedures would be modeled and closely follow national regulations and procedures. Public procurement in Ethiopia follows the federal structure of the government. Procurement at the federal level is governed by the procurement code issued by the federal government on January 12, 2005. In the case of Bank / Donor financed projects, the ministry will follow the Bank's standard procedures. As the PCU is

a new establishment, no existing internal written procurement working manuals is available. The procurement procedures of ESTDP will be detailed in the PIM.

16. **Procurement Cycle Management:** the entity's procurement planning, RFP preparation, management of bidding process, proposals evaluation and general handling of procurement cycle for the few contracts already procured by the newly established unit is acceptable. But the PCU, as an entity, is a new establishment and has little prior experience in managing major goods and works procurement process. Therefore it needs further capacity building actions to manage international procurement.

17. **Organization and Functions:** the organization of the procurement unit of PCU of the ESTDP and allocation of functions, at the federal level is acceptable. The situation at the region levels (site management units) is not yet known. The flow of procurement process or activity, at the federal level, is that the procurement section prepares all procurement documents and the PCU manager would clear. Regarding tenders evaluation, there is tender committee chaired by the PCU's M&E department head. The committee has three members and conducts the tender analysis and makes recommendations of the award. The award recommendation is approved by the PCU manager.

18. **Support and Control Systems:** there is an internal audit division within the MoCT. The project procurement function will be audited by the ministry's audit division. The tender committee reviews and endorses tender evaluations which will be further approved by the Manager. The existing segregation of duties and support system is satisfactory for the small sized procurements. Though there is no written internal procedural manual the team is working with good knowledge of the federal government's procurement procedures.

19. **Record-keeping:** the review of limited procurement documents of the procurement unit of PCU indicates that the records keeping practice is acceptable.

20. **Staffing:** at the federal PCU, there is only single procurement staff at the moment. There is a plan to recruit additional one. The existing single staff has relevant knowledge to undertake acceptable procurement. The PCU team, in general, has good understanding of the project and there is good communication, among the team, both lateral as well as vertical.

21. With the Understanding of the existing capacity limitations, the ministry has established a separate PCU and the PCU has already hired qualified procurement specialist. The hired Procurement specialist has been involving in this project preparation over the last several months

22. **General Procurement Environment:** the PCU of the MoCT at the federal level is a newly established unit and has no previous experience of working together as a team and no record of success or failure. All the procedures and systems are currently under development. However, the staffs of the PCU are well experienced and have good spirit for the success of the project. With specific to procurement, at the federal level the start seems good, but the situation/the capacity at the regional levels (site management units) is very uncertain. At the moment, the site management is not yet organized. The ministry has confirmed to finalize this task by end June 2009.

23. The key issues and risks concerning procurement for implementation of the project have been identified and include:

- The PCU is newly established and all positions are not staffed yet. The team has no previous experience of working together as a team;
- Institutional experience limitations to administer international contracts procurement in general and Bank-financed procurement in particular;
- Quality of supporting and control systems is not adequate;
- The organizational aspects and skills of the staff, at the regional levels (Site management unit level) is not yet known/not in place;
- Lack of written procedural manuals/systems in place;
- Unavailability of qualified contractors/suppliers/consultants for the unique/uncommon/ works/ goods/ services to be procured.

24. The following actions were agreed upon with the MoCT as risk mitigation measures:

- The Ministry will recruit additional procurement staff at the federal level, and complete this before end of June 2009;
- The Ministry will prepare Project Implementation Manual (PIM) which will have a procurement section containing detailed procedures of the project procurement management and laying out all steps required. Procurement training on the use of Bank's standard procurement documents will be provided to the procurement staff of the project;
- The PCU's procurement performance will be over sighted by the Project Steering Committee (PSC) and also audited by an independent auditor either by PPA or Office of the auditor General;
- The procurement part of the PIM will establish detailed procedures and lays out all steps to conduct efficient procurement to assist the practitioners as guidance;
- Cognizant and flexible contract packaging and procurement planning to be adopted to attract international suppliers, even if the contract amounts are below the ICB thresholds.

25. The overall project risk for procurement is **HIGH** and the thresholds for prior review, for international competitive bidding (ICB) including the maximum contract value for which the short list may comprise exclusively National firms in the selection of consultants, are presented in the table below.

Table 8: Procurement Thresholds

CATEGORY	PRIOR REVIEW THRESHOLD	ICB THRESHOLD	NATIONAL SHORT LIST MAX VALUE
	[\$]	[\$]	[\$]
Works	=>5,000,000	=>5,000,000	NA
Goods	=>500,000	=>500,000	NA
Consultants (Firms)	=>200,000	NA	<200,000
Consultants (Individuals)	=>100,000	NA	NA

26. Additionally, the first two (2) contracts of each procurement method, irrespective of the amount, will be subject to IDA prior review as determined mandatory in paragraphs 2 and 3 of Annex 1 of the Bank's procurement Guidelines. all single source selection and all direct contracts; irrespective of the amount; and all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review mandatory in paragraphs 2 and 3 of Annex 1 of the Bank's Consultants selection Guidelines.

27. **Post review:** for each contract not submitted to the prior review, the procurement documents will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's procurement Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

C. Procurement Plan

28. The Borrower developed, at appraisal, a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team during negotiations and is available at the office of the ESTDP Coordination unit. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

29. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended semi-annual supervision missions to visit the field to carry out post review of procurement actions.

F. Details of the Procurement Arrangements Involving International Competition

1. Works, goods, and non consulting services.

(a) Works Procurement Packages with Methods and Time Schedule

1	2	3	4	5	6	7	8	9
Ref No.	Description	Estimated Amount in US\$, 000	Procurement Method	Pre-qualification (yes/no)	Prior or Post Review	Bid Closing-Opening	Date Contract Signature	Comments
1	Improvement of heritage assets	4,034	NCB	No	Post	2/19/2010	7/29/2010	
2	Road improvement	4,260.0	NCB	No	post	1/10/2009	8/8/2010	
3	Visitor centers, training center and trail signage enhancement at core and satellite sites	2,998.8	NCB	No	post	4/29/2010	8/12/2010	
4	Provision of sanitation, water, solid waste and other environmental and protection works in the core sites and buffer zone	1,496.9	NCB	No	post	3/16/2010	6/29/2010	
5	Support to resettlement process	1,000	NCB	No	post	04/29/2010	08/12/2010	

(b) Goods Procurement Packages with Methods and Time Schedule

1	2	3	4	5	6	7	8
Ref No.	Description	Estimated Amount in US\$ 000	Procurement Method	Prior or Post Review	Bid Closing-Opening	Date Contract Signature	Comments
1	Garbage and sewage truck	270.0	ICB	Prior	6/28/2010	8/25/2010	
2	IT Equipment	100.0	NCB	post	12/27/2009	3/29/2010	
3	Furniture, office equipment, and materials for the Tourist Information Center	773.0	ICB	Prior	10/28/2009	1/28/2010	May be broken into small lots
4	Vehicles	330.0	NCB	post	10/28/2009	1/28/2010	
5	Exhibition items and equipments for visitor centers	500.0	ICB	Prior	1/13/2010	4/15/2010	
6	Promotional materials and reproduction	325.0	NCB	post	8/13/2010	11/15/2010	

2. Consultant services

(c) Consultancy Assignments with Selection Methods and Time Schedule

1	2		5	6	7	8	9
Ref No.	Description*	Estimated Amount in US\$, 000	Selection Method	Prior/Post Review	Estimated Bids opening/closing Date	Estimated contract signing date	Comments
1	Tourism ecommerce platform	250.0	QCBS	Prior	06/23/2010	10/27/2010	
2	Professionalization of guides and hospitality industry workforce: Program design and development	260.0	QCBS	Prior	02/10/2010	06/16/2010	
3	School awareness program design and delivery	100.0	CQS	Post	02/24/2010	06/30/2010	
4	Policies and competitiveness enhancement	200.0	QCBS	Prior	10/30/2009	03/05/2010	
5	Support to the Tourism National/Competitiveness Council, Set-up and support to the Tourism Board	150.0	IC	Prior	10/30/2009	03/05/2010	
7	Support to tourism training institutions' programs, Tourism education and training plan	400.0	QCBS	Prior	11/01/2010	03/07/2011	
9	Design of promotional materials	260.0	QCBS	Prior	01/20/2010	05/26/2010	
10	Norms and standards for tourist establishments	200.0	QCBS	Prior	10/30/2009	03/05/2010	
11	Support to MoCT and Regional Tourism Bureaux	300.0	QCBS	Prior	10/30/2009	03/05/2010	
12	ICT infrastructure (Lalibela, Axum and Addis), Results tracking system- design and development	450.0	QCBS	Prior	11/01/2010	03/07/2011	
13	Information system strengthening (statistics and equipment)	400.0	QCBS	Prior	10/30/2009	03/05/2010	
14	Design and implementation of marketing and promotional strategy (marketing Branding and marketing strategy, Communication and positioning)	1,450.0	QCBS	Prior	01/20/2010	05/26/2010	
15	Environmental and social impact assessment	800.0	QCBS	Prior	11/25/2009	03/31/2010	
16	Sanitation, solid waste and water consultancy	163.0	QCBS	post	10/30/2009	01/15/2010	
17	Curriculum upgrading- Tourism education training plan	175.0	QCBS	Prior	04/02/2010	07/20/2010	
17	Sustainable tourism development program (Tourism product quality improvement program, Ecotourism product development program)	94.0	IC	Post	12/02/2009	02/10/2010	
18	Development of Harari cultural and artistic heritage including coffee experience	110.0	IC	Prior	10/30/2009	01/08/2010	
19	Attractions inventory assessment along the western route	50.0	IC	Post	06/02/2010	10/06/2010	
20	Tourists satisfaction and beneficiary surveys and M&E annual survey	140.0	QCBS	post	04/07/2010	06/16/2010	

21	Technical studies for old houses, Adaptive reuse study for large buildings and vernacular homes and Study on historical district management framework, Vernacular Architectural Heritage Survey	252.0	QCBS	prior	11/25/2009	02/03/2010	
22	Site development study and tourism development plan	100.0	IC	Post	07/21/2010	11/24/2010	
23	Inventory study and preparation of development plan for potential attraction for Somali region	70.0	IC	Post	12/21/2009	04/26/2010	
24	Identification of World Heritage Site Boundaries for Lalibela	90.0	IC	Prior	11/01/2010	03/07/2011	

Annex 9: Economic and Financial Analysis

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. This project's main outcomes are related to tourist visitation, income generation through tourist spending, and jobs. The Project takes place in the context of, and is an important contribution to, Ethiopia's overall tourism strategy, grounded in a new paradigm formulated in 2005 that is meant to set in motion and rapidly build the sector as a pivotal component of the country's economic development. The Project, by providing support in the form of cultural heritage site improvement, institutional development and capacity building as well as through a linkages program aimed at fostering small and medium enterprise development (many of them located in rural areas), is likely to contribute to the broader objectives of economic diversification and inclusive growth.

Economic Analysis Methodology

2. The economic analysis of this type of project faces some difficulties particularly where there is an indirect relationship between the technical assistance provided under the project on its stream of benefits, and from the lagged effects of the project. Also, most of the benefits do not lend themselves easily to being assigned a precise monetary value and cannot always be unambiguously attributed to the project, for example tourism revenues. For these reasons, sometimes a cost effectiveness methodology is used for economic analysis of these types of projects, however due to lack of adequate information for conducting this type of analysis this methodology has not been adopted. For the purpose of this project a simple cost-benefit analysis model has been developed to calculate the net present value (NPV) and the economic rate of return (ERR) in a "with" and "without" project framework on a 12-year time horizon. To address the limitations of this approach a conservative set of assumptions is used and sensitivity analysis has also been conducted to assess the robustness of results. In addition, for a project of this type the focus of analysis is on estimating the economic benefits and costs rather than financial analysis.

Main Assumptions

3. Based on the information from field visits, background analytical studies done for the purpose of the project and experience from similar projects in other African countries, the following assumptions were made:

- The discount rate used for the economic analysis is 12% based on the standard assumption that the opportunity cost of capital is 10% in most of World Bank Projects⁹.
- The project impact is expected to start materializing during project implementation. The maximum impact of the project will be reached once the relevant capacity and institutions are strengthened. Keeping this in view a 12-year time horizon is used.

⁹ Handbook on Economic Analysis of Investment Operations, OPR, May 2006

- Under the destination development and marketing components, it is assumed that the number of international tourist arrivals in targeted destination (Addis Ababa, Axum and Lalibela) would be close to 80 percent of total arrivals. This is a conservative estimate based on the Overseas Development Institute (ODI) study which estimates that out of the total of 303,241 tourist arrivals in 2007, 212,000 (70 percent) are conference and business tourist that come to Addis Ababa. And almost all international leisure tourists to Ethiopia visit the Northern Historical Route including the destinations of Axum and Lalibela¹⁰.
- Further, in case of domestic tourists, due to inadequate data the baseline estimates for Addis Ababa, Axum and Lalibela are based on recent estimates provided in the ODI report, according to which 403,000 domestic business tourists visit Addis and for Axum and Lalibela the estimate is 17,961 and 9,644 respectively. The estimate of average length of stay and average spending per person per day are also based on ODI estimates.
- In order to arrive at an expected growth rate for tourism revenues, we have analyzed the historical trend in tourist arrivals based on official statistics¹¹. According to these during the period 2000 to 2007 the average annual growth in international tourists arrivals is above 13 percent. However, taking into account the weaknesses in data collections and weak macroeconomic outlook for the global economy we are taking a conservative estimate of 8 percent growth in tourism revenue with 'a lag effect of two years' for 'with project' base case scenario and a 6 percent growth rate for 'without project' base case scenario. Taking into account the difficulties in estimating tourism revenues sensitivity analysis with a more conservative growth rate of 4 percent 'with project' and 3 percent 'without project' with a lag effect of 2 years is also conducted. In addition, increase in tourism revenues is adjusted by 50 percent to take into account the impact of activities not supported by the project.
- Under the Demand-driven Linkages component it is assumed that a total of 60 MSMEs and Associations would be supported by the project based on an average grant funding of USD 50,000 per firm. Further it is assumed that as a result of increased efficiency and capacity utilization, the supported firms would yield an increase in output at a multiple of two times the support provided with a lag of 1 year. This is based on experience in other countries such as Burkina Faso and Uganda in which a multiple of 10 and 5 times the grant were used respectively. In addition, support to these enterprises would also result in direct and indirect job creation, however due to difficulty in accurately estimating this variable, the secondary impacts in terms of increased employment income have not been included in the calculation of NPV and ERR.

¹⁰ Overseas Development Institute, 'Enhancing Private Sector and Community engagement in tourism services in Ethiopia' draft report January, 2009.

¹¹ Ministry of Culture and Tourism, 'Tourist Statistics Bulletin' 2003-2005

- The additional output created by assisted firms is defined as the difference between the level of output achieved by firms assisted by the grant scheme funding and the level of output these same firms would have achieved otherwise.
- Under the Institutional Development component, in line with common practices used in the appraisal of this type of projects, it is assumed that technical assistance efforts do yield tangible economic benefits. Therefore, we assume that the capacity building support provided to various public entities as part of this component would result in an increase in output at a multiple of 2 times the amount of funding provided under the project with a lag effect of 2 years.
- The corporate and income tax rate of 30 percent is assumed to estimate the fiscal impact.
- A stable macroeconomic environment with price and exchange rate stability is also assumed.

Summary of Benefits and Costs

Table 9: Aggregate Economic Analysis of the Project

	Present Values of Flows	Fiscal Impact
	Net Economic-Financial	Taxes (\$ mn)
Benefits (US\$ mn)	108.1	32.4
Costs (US\$ mn)	19.8	
Net Benefits (US\$ mn)	88.3	
ERR (%)	43%	

Notes: The discount rate used for above economic analysis is 12%. The results above are based on 12-year forecast time frame.

Base Case Results

4. Table 9 displays the aggregate cost benefit analysis of the project. The Net Present Value of the net benefits of the components of the project at the discount rate of 12 percent is estimated at \$88 million with an ERR of 43 percent. Substantial fiscal benefits of \$32 million are expected to accrue. The detailed analysis by component is presented in table 10 below.

Table 10: Detailed Economic Cost-Benefit Analysis

	Present Value of Flows			ERR (%)
	Benefits	Costs	Net Benefits	
i. Destination Development and Marketing <ul style="list-style-type: none"> • Rehabilitation of historic sites and basic infrastructure • Visitor services enhancement • Product development in emerging destinations • Positioning and Marketing 	94.34	14.06	80.28	46%
ii. Matching Grant Scheme/Community Involvement <ul style="list-style-type: none"> • Sustainable Tourism Development 	5.71	2.01	3.70	43%
iii. Institutional Development and Capacity Building <ul style="list-style-type: none"> • Institutional Development • Capacity Building 	8.01	3.74	4.28	27%

5. The project is expected to yield gains in terms of increased number of tourist arrivals and extended length of average stay that are expected to yield significant tourism receipts. In addition under the matching grant fund the supported MSMEs are likely to create direct jobs as a result of increased output. Also, a significant number of indirect jobs would also be created that are not accounted for in this analysis.

Results of Sensitivity Analysis

6. Sensitivity analyses were effectuated through adoption of more conservative scenarios. The first conservative scenario consists in assuming slow disbursement schedule of 7 year against baseline of 6 years. This is done to take into account the risks associated with weak implementation capacity.

Table 11: Detailed Economic Cost-Benefit Analysis (7 year disbursement schedule)

	Present Value of Flows			ERR (%)
	Benefits	Costs	Net Benefits	
i. Destination Development and Marketing <ul style="list-style-type: none"> Rehabilitation of historic sites and basic infrastructure Visitor services enhancement Product development in emerging destinations Positioning and Marketing 	76.90	13.29	63.61	39%
ii. Matching Grant Scheme/Community Involvement <ul style="list-style-type: none"> Sustainable Tourism Development 	5.41	1.90	3.52	40%
iii. Institutional Development and Capacity Building <ul style="list-style-type: none"> Institutional Development Capacity Building 	7.57	3.53	4.04	26%
Overall Project	89.9	18.7	71.2	38%

7. The second conservative scenario takes into account sensitivity to growth in tourism revenues by assuming a growth rate of 4 percent with project and 3 percent without project against a baseline scenario of 8 percent and 6 percent respectively.

Table 12: Detailed Economic Cost-Benefit Analysis (4 percent growth in tourism revenues)

	Present Value of Flows			ERR (%)
	Benefits	Costs	Net Benefits	
i. Destination Development and Marketing <ul style="list-style-type: none"> Rehabilitation of historic sites and basic infrastructure Visitor services enhancement Product development in emerging destinations Positioning and Marketing 	36.42	14.06	22.35	27%
ii. Matching Grant Scheme/Community Involvement <ul style="list-style-type: none"> Sustainable Tourism Development 	5.71	2.01	3.70	43%
iii. Institutional Development and Capacity Building <ul style="list-style-type: none"> Institutional Development Capacity Building 	8.01	3.74	4.28	27%
Overall Project	50.1	19.8	30.3	28%

8. The third scenario takes into account a shorter time horizon of 6 years instead of the base case scenario of 12 years to estimate the net benefits and costs of the project that would result during the first 6 years of the project life.

Table 13: Detailed Economic Cost-Benefit Analysis (6-year time horizon)

	Present Value of Flows			ERR (%)
	Benefits	Costs	Net Benefits	
i. Destination Development and Marketing <ul style="list-style-type: none"> • Rehabilitation of historic sites and basic infrastructure • Visitor services enhancement • Product development in emerging destinations • Positioning and Marketing 	27.69	14.06	13.63	28%
ii. Matching Grant Scheme/Community Involvement <ul style="list-style-type: none"> • Sustainable Tourism Development 	5.40	2.01	2.35	37%
iii. Institutional Development and Capacity Building <ul style="list-style-type: none"> • Institutional Development • Capacity Building 	4.29	3.74	0.56	15%
Overall Project	37.4	19.8	17.6	28%

9. The positive NPV in all three scenarios indicates that the results of analysis are robust.

Conclusion

10. In summary, the economic benefits expected from the project include job creation, increased productivity and economic diversification. Improvements in service delivery are expected to result in an increase number of foreign and local tourists as well as average duration of stay that would generate higher level of tourism receipts. Also, increase production and output of the firms in the SME sector will result in more job opportunities.

Annex 10: Safeguard Policy Issues

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. The project has triggered OP 4.01 Environmental Assessment, OP 4.11 Physical Cultural Resources; and OP 4.12 Involuntary Resettlement due to civil works that are required to enhance selected sites.

OP 4.01 Environmental Assessment

OP 4.01 has been triggered due to the planned construction and rehabilitation activities under component 1: (i) Improvements of basic infrastructures (i.e. access and by-pass roads, water supply and sanitation) in Lalibela; (ii) renovation and improvements at the National Museum in Addis Ababa; and (iii) rehabilitation and upgrading of tourist/visitor facilities in Lalibela, Axum, Addis Ababa and environs. The construction and rehabilitation activities related to the aforementioned investments are likely to incur some localized adverse environmental and social impacts such as soil and water pollution, loss of vegetation, soil erosion, air and noise pollution, and loss of livelihoods.

2. Since the actual locations of the future investments could not be firmly determined prior project appraisal and to ensure that the planned activities are carried out in an environmentally and socially sustainable manner, the borrower has prepared a revised Environmental and Social Management Framework (ESMF) dated March 11, 2009. The environmental and social screening process outlined in the ESMF is intended to enable sub-project implementers to identify, assess, mitigate and monitor the potential localized adverse environmental and social impacts (i.e. soil and water pollution, loss of vegetation, soil erosion, air and noise pollution, and loss of livelihoods) of the planned construction/rehabilitation activities.

3. The ESMF was prepared in consultations with relevant government officials as well as urban and rural residents of potential investment areas to generate information regarding how they use space in their locality for livelihood generation, residence and cultural purposes to identify the potential localized adverse environmental and social impacts due to project implementation. The results of these consultations indicated that while there may be some difficulties associated with potential relocation of potentially affected persons, there will also emerge new job and training opportunities, and the infrastructure investments such as improved roads will not only benefit the tourists, but also the local residents who will have easier access to markets, health and education facilities.

4. The ESMF describes the environmental and social screening process for sub-projects (screening, assignment of the appropriate environmental category, public consultations, carrying out of the requisite environmental work; review and clearance; environmental monitoring, environmental monitoring indicators) and includes (i) an Environmental and Social Screening Form which includes requirements for public consultations, disclosure of the screening results and EAs, and the identification of potential adverse social impacts due to land acquisition during the screening process; (ii) an Environmental and Social Checklist; (iii) a summary of the Bank's safeguard policies; (iv) draft EA terms of reference; (v) Environmental Guidelines for Contractors to be attached to the tender documents; and (vi) an Environmental and Social

Management Plan (ESMP) for the proposed ESTDP. The ESMP (i) outlines the institutional responsibilities and cost estimates for implementation and monitoring of environmental and social mitigation measures pertaining to the investments under component 1; and (ii) includes funding for environmental and social management capacity building under ESTDP.

5. If the environmental and social screening results indicate that there will be a loss of livelihoods due to the planned investment, sub-project implementers will arrange for the implementation of the provisions of the Resettlement Policy Framework (RPF) to ensure that the appropriate mitigation measures are implemented in compliance with the provisions of OP 4.12 Involuntary Resettlement.

6. To ensure efficient implementation of the ESMF, the PCU will hire an Environmental Consultant to be located in Addis Ababa. This Environmental Consultant will (i) coordinate activities related to the implementation of the ESMF with the Site Officers, the regional EPAs as well as the relevant municipalities in the Amhara and Tigray Regions; (ii) arrange for the implementation of the relevant provisions of the ESMF in Addis Ababa, Oromia Region; (iii) make appropriate arrangements for environmental monitoring as recommended in the ESMF and/or separate environmental assessment (EA) reports; and (iv) oversee the overall implementation of the ESMF.

7. In addition, the project will fund an environmental training program to ensure that qualified personnel are available to implement the ESMF. The consultants concluded that the technical and management capacity to execute ESMF is weak at the local level, and qualified environmental management staff in are very limited even at the Federal and Regional levels. Availability of qualified and well-trained personnel is, therefore, crucial to effective implementation of the ESMF. Training is needed particularly for regional and local staff working in tourism development and Environmental Management sectors as well as for local government leaders and decision makers.

8. Detailed technical training for participants overall should focus on the need to analyze potentially adverse environmental impacts, to prescribe mitigation approaches and measures, and to prepare and supervise the implementation of management plans. This training should address such matters as community participation needs and methods; environmental analysis; with the use of environmental screening and other checklist, reporting; and subproject supervision and monitoring that is the implementation of the environmental and social screening process outlined in the ESMF. Provisions have also been made for (i) the preparation of EA reports that might be required on the basis of the screening results; and (ii) environmental protection works at the core sites and the buffer zone in Lalibela.

OP 4.11 on Physical Cultural Resources

10. *OP 4.11 on Physical Cultural Resources* is triggered as a consequence of planned restoration works on culturally significant structures in the World Heritage sites of Lalibela (churches) and Axum (stelae field, church, traditional houses). It is also triggered in recognition of the rich archaeological heritage in the area and to ensure that the chance find clause is respected in any civil works especially those involving digging such as road works financed through the project. The ESMF covers this policy and any specific EMPs will also detail

mitigation actions. The project will work closely with ARCCH which is the Federal Agency charged with carrying out rescue archaeological activities in the country. This group and regional counterpart offices have benefitted from the training in this area received through the recently completed World Bank financed Ethiopia Cultural Heritage Project.

OP 4.12 on Involuntary Resettlement

11. OP 4.12 on *involuntary resettlement* is triggered by the planned relocation of about half of the 258 households from the core area of the Lalibela church complex, as well as possible resettlement /compensation as needed for people whose lands or businesses (vendors) are acquired along the planned by-pass roads in Lalibela. No activities in Axum or Addis Ababa will have any land acquisition. A resettlement policy framework (RPF) has been prepared and disclosed which provides a profile of the affected community and lays down the framework for compensation and restoration of livelihoods. Now that the core zone has been mapped out, a more detailed Resettlement Action Plan (RAP) will be prepared soon and will be sent for approval by the World Bank. Simultaneously, the affected communities are being consulted and informed. The relocation site has been identified and is in the process of being made serviceable with school, electricity and water supply. In the unlikely event that land is acquired or access restricted in any other project activity, the RPF will apply and its procedures will be strictly adhered to. The resettlement will also need to be carried in a way that preserves the special status of Lalibela as a living World Heritage pilgrimage site so as not to weaken its tourism attractiveness.

Annex 11: Project Preparation and Supervision
ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

	Planned	Actual
PCN review	05/25/2007	06/21/2007
Initial PID to PIC	05/30/2007	05/16/2008
Initial ISDS to PIC	05/30/2007	05/16/2008
Appraisal	05/06/2009	05/06/2009
Negotiations	05/29/2009	05/29/2009
Board/RVP approval	06/30/2009	
Planned date of effectiveness	11/30/2009	
Planned date of mid-term review	05/31/2012	
Planned closing date	12/30/2014	

Key institutions responsible for preparation of the project:

Ministry of Culture and Tourism, Addis Ababa, Ethiopia
Regional Tourism Bureaux
Agency for Research and Conservation of Cultural Heritage (ARCCH)
Ministry of Finance and Economic Development

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Francois Nankobogo	Senior Operation Officer, TTL	AFTFP
Hannah Messerli	Senior. Private Sector Dev. Specialist	AFTFP
Menbere Tesfa	Private Sector Specialist	AFTFP
Ibrahim Dione	Consultant	AFTFP
Nevena Alexieva	Senior Operation Officer	AFTRL
Victoria Gyllerup	Senior Operation Officer	AFTSN
Edeltraut Gilgan-Hunt	Environment Specialist	ASPEN
Meron Tadesse	Extended Term Consultant, Financial Management Specialist	AFTFM
Tesfaye Ayele	Procurement Specialist	AFTPC
Evarist Baimu	Counsel	LEGAF
Johnathan D. Pavluk	Senior Counsel	LEGAF
Roxanne Hakim	Senior Anthropologist	AFTCS
Luis Schwartz	Senior Finance Officer	LOAFC
Hemam Girma	Team Assistant	AFCEC
Yeshareg Dagne	Program Assistant	AFTFP

Bank funds expended to date on project preparation:

1. Bank resources: US\$ 350,000.00
2. Trust funds: US\$ 145,000.00
3. Total: US\$ 495,000.00

Estimated annual supervision cost: US\$ 120,000

Annex 12: Documents in the Project File
ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

1. World Bank, In Makeda's Footsteps – Towards a Tourism Sector Strategy, 2006
2. World Bank/ODI, Enhancing private sector and community engagement in tourism services in Ethiopia (draft report), 2009
3. Preparation missions' Aide-Memoire
4. Destination studies funded under the PPF:
 - Lalibela: Cultural Heritage and Social Safeguards Plan / Tourism and Heritage Management Plan
 - Lalibela Water Supply and Sanitation Plan
 - Axum: Integrated Destination Development Plan
 - Destination Development Plan for Addis Ababa and its Environs
 - Destination Development Plan for an Eastern Route in Ethiopia
 - Destination Development Plan for a Southern Route in Ethiopia
5. Ministry of Culture and Tourism, Environment and Social Management Framework, March 2009
6. Ministry of Culture and Tourism, Resettlement Policy Framework, March 2009
7. USAID/Ethiopian Sustainable Tourism Alliance: Creating the Structure for Sustainable and Responsible Tourism in Ethiopia, Strategic Planning Workshop Report.
8. Ethiopian Tourism Masterplan – Tourconsult, 1995/6
9. World Bank, Diagnostic Trade Integration Study – Annex 11: The Tourism Sector in Ethiopia: Profile, Problems and a Way Forward, 2003.
10. World Tourism Organization, Tourism and Poverty Alleviation in Ethiopia, Prepared by Richard Denman, The Tourism Company, June 2004
11. Ethiopia, Integrated Value Chain Analysis for Tourism, 2006
12. World Bank, Toward the Competitive Frontier – Strategies for Improving Ethiopia's Investment Climate (draft), June 2008
13. Ministry of Culture and Tourism, Tourism Policy (final draft), December 2008
14. Ministry of Finance and Economic Development, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/6-2009/10, September 2006.
15. Government of Ethiopia, Ethiopia Tourism Paradigm, 2005.

Annex 13: Statement of Loans and Credits
ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P103022	2009	ET-Protect. Basic Serv. Phase II (FY09)	0.00	540.00	0.00	0.00	0.00	556.06	0.00	0.00
P106855	2009	ET-General Educ Quality Improv. (FY09)	0.00	50.00	0.00	0.00	0.00	51.60	0.00	0.00
P113156	2009	ETHIOPIA GLOBAL FOOD CRISIS RESPONSE PRO	0.00	250.00	0.00	0.00	0.00	9.41	-9.00	0.00
P096323	2008	ET-Tana & Beles Int. Wat Res Dev Project	0.00	45.00	0.00	0.00	0.00	37.86	-3.17	0.00
P101474	2008	ET-Urban Local Govt Development (FY08)	0.00	150.00	0.00	0.00	0.00	123.71	-2.81	0.00
P101556	2008	ET-Elect. Access Rural II SIL (FY07)	0.00	130.00	0.00	0.00	0.00	132.72	50.78	0.00
P074011	2008	ET/Nile Basin Initiative:ET-SU Interconn	0.00	41.05	0.00	0.00	0.00	34.84	4.46	0.00
P106228	2008	ET- Ethiopia Nutrition SIL (FY08)	0.00	30.00	0.00	0.00	0.00	26.69	-3.00	0.00
P107139	2008	ET-Sustainable Land Mngt SIL (FY08)	0.00	20.00	0.00	0.00	0.00	18.21	-0.50	0.00
P108932	2008	ET-Pastoral Community Develpt II (FY08)	0.00	80.00	0.00	0.00	0.00	63.52	4.33	0.00
P101473	2007	ET-Urban WSS SIL FY07)	0.00	100.00	0.00	0.00	0.00	88.64	11.41	0.00
P098031	2007	ET-Multi-Sectoral HIV/AIDS II (FY07)	0.00	30.00	0.00	0.00	0.00	17.51	16.64	0.00
P092353	2007	ET-Irrigation & Drainage SIL (FY07)	0.00	100.00	0.00	0.00	10.00	77.38	38.29	0.00
P091077	2007	ET-APL3-RSDP Stage III Proj (FY07)	0.00	225.00	0.00	0.00	0.00	191.15	20.82	0.00
P079275	2006	ET- Cap. Building for Agric. Serv (FY06)	0.00	54.00	0.00	0.00	13.00	27.61	6.57	-1.29
P094704	2006	ET-Financial Sector Cap Bldg. Project	0.00	15.00	0.00	0.00	7.00	5.64	8.04	0.00
P097271	2006	ET-Electricity Access (Rural) Expansion	0.00	133.40	0.00	0.00	0.00	106.63	93.56	0.00
P074015	2006	ET-Protection of Basic Services (FY06)	0.00	430.00	0.00	0.00	0.00	9.15	-221.56	0.00
P082998	2005	ET-Road Sec Dev Prgm Ph 2 Supl 2 (FY05)	0.00	248.20	0.00	0.00	0.00	129.97	19.50	-6.60
P078692	2005	ET-Post Secondary Education SIL (FY05)	0.00	40.00	0.00	0.00	15.00	7.00	19.58	0.00
P078458	2005	ET-ICT Assisted Dev SIM (FY05)	0.00	25.00	0.00	0.00	10.00	5.75	14.20	2.70
P050272	2005	ET-Priv Sec Dev CB (FY05)	0.00	24.00	0.00	0.00	7.00	9.03	8.22	2.30
P074020	2004	ET-Pub Sec Cap Bldg Prj (FY04)	0.00	100.00	0.00	0.00	20.00	11.14	27.66	0.00
P076735	2004	ET-Water Sply & Sanitation SIL (FY04)	0.00	100.00	0.00	0.00	13.00	44.86	44.14	0.00
P049395	2003	ET-Energy Access SIL (FY03)	0.00	132.70	0.00	0.00	0.00	100.41	71.27	70.42
P044613	2003	ET-RSDP APL1 (FY03)	0.00	126.80	0.00	0.00	0.00	17.36	2.51	0.00
P050383	2002	ET-Food Security SIL (FY02)	0.00	85.00	0.00	0.00	35.00	1.06	16.76	-14.23
Total:			0.00	3,305.15	0.00	0.00	130.00	1,904.91	238.70	53.30

ETHIOPIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
						</			

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

ETHIOPIA SUSTAINABLE TOURISM DEVELOPMENT PROJECT

POVERTY and SOCIAL

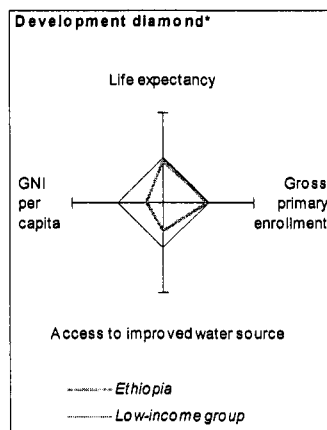
	Ethiopia	Sub-Saharan Africa	Low-income
2007			
Population, mid-year (millions)	79.1	800	1296
GNI per capita (Atlas method, US\$)	220	952	578
GNI (Atlas method, US\$ billions)	17.6	762	749

Average annual growth, 2001-07

Population (%)	2.6	2.5	2.2
Laborforce (%)	2.9	2.8	2.7

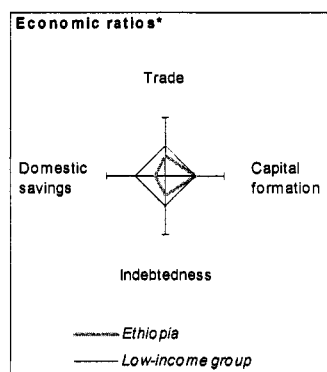
Most recent estimate (latest year available, 2001-07)

Poverty (% of population below national poverty line)
Urban population (% of total population)	17	36	32
Life expectancy at birth (years)	52	51	57
Infant mortality (per 1000 live births)	77	94	85
Child malnutrition (% of children under 5)	35	27	29
Access to an improved water source (% of population)	42	58	68
Literacy (% of population age 15+)	36	59	61
Gross primary enrollment (% of school-age population)	91	94	94
Male	97	99	100
Female	85	88	89



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

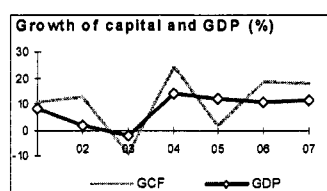
	1987	1997	2006	2007
GDP (US\$ billions)	10.4	8.9	15.2	19.4
Gross capital formation/GDP	16.1	19.8	24.2	25.0
Exports of goods and services/GDP	6.0	11.4	13.8	12.8
Gross domestic savings/GDP	10.5	13.2	15	5.5
Gross national savings/GDP	119	17.8	15.1	20.7
Current account balance/GDP	-4.2	-2.2	-9.1	-4.5
Interest payments/GDP	0.6	0.5	0.4	..
Total debt/GDP	70.5	113.3	15.3	..
Total debt service/exports	38.3	9.5	7.1	..
Present value of debt/GDP	5.9	..
Present value of debt/exports	38.7	..



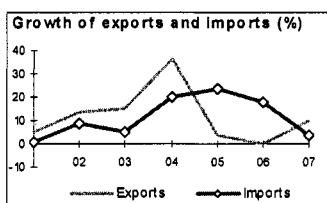
	1987-97	1997-07	2006	2007	2007-11
(average annual growth)					
GDP	2.0	6.2	10.9	11.1	..
GDP per capita	-13	3.3	8.0	8.4	..
Exports of goods and services	12	12.8	-0.2	10.2	..

STRUCTURE of the ECONOMY

	1987	1997	2006	2007
(% of GDP)				
Agriculture	54.3	57.6	47.9	46.3
Industry	13.3	10.7	12.7	13.4
Manufacturing	5.5	5.0	4.5	5.1
Services	32.5	31.7	39.4	40.3
Household final consumption expenditure	79.0	78.8	86.4	83.9
General gov't final consumption expenditure	10.6	8.0	12.1	10.6
Imports of goods and services	11.7	17.9	36.5	32.2



	1987-97	1997-07	2006	2007
(average annual growth)				
Agriculture	3.1	4.3	10.9	9.4
Industry	-1.5	7.8	10.2	11.0
Manufacturing	-2.8	5.7	10.6	10.5
Services	1.5	7.7	12.9	13.9
Household final consumption expenditure	3.1	6.4	14.3	8.9
General gov't final consumption expenditure	-2.9	6.4	8.1	-3.8
Gross capital formation	-0.8	6.6	18.5	17.4
Imports of goods and services	0.7	10.4	18.0	3.8



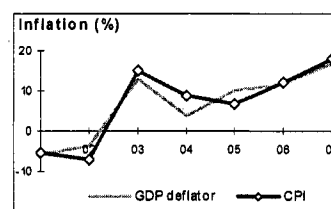
Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

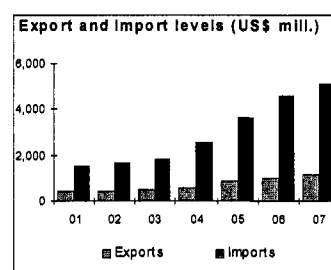
PRICES and GOVERNMENT FINANCE

	1987	1997	2006	2007
Domestic prices (% change)				
Consumer prices	-9.5	-6.4	12.3	17.8
Implicit GDP deflator	-6.1	4.5	11.6	18.8
Government finance (% of GDP, includes current grants)				
Current revenue	14.5	15.4	16.7	16.3
Current budget balance	2.3	5.5	5.2	5.9
Overall surplus/deficit	-4.1	-13	-5.5	-4.9



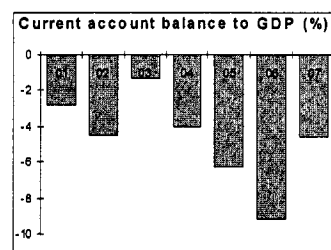
TRADE

	1987	1997	2006	2007
(US\$ millions)				
Total exports (fob)	391	599	1000	1185
Coffee	253	355	354	424
Pulses and oil seeds	9	23	248	258
Manufactures	74	75	94	105
Total imports (cif)	1081	1309	4,592	5,126
Food	194	17	333	259
Fuel and energy	109	147	861	875
Capital goods	466	528	1,552	2,020
Export price index (2000=100)	115	132	110	118
Import price index (2000=100)	99	87	139	151
Terms of trade (2000=100)	116	152	79	78



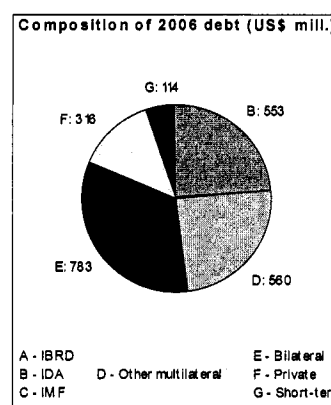
BALANCE of PAYMENTS

	1987	1997	2006	2007
(US\$ millions)				
Exports of goods and services	623	1011	2,105	2,486
Imports of goods and services	1,217	1,589	5,548	6,266
Resource balance	-594	-578	-3,443	-3,780
Net income	-48	-97	-38	13
Net current transfers	204	484	2,095	2,885
Current account balance	-437	-191	-1,386	-882
Financing items (net)	415	-94	989	1,050
Changes in net reserves	21	285	397	-158
Memo:				
Reserves including gold (US\$ millions)	224	558	1,158	1,326
Conversion rate (DEC, local/US\$)	2.1	6.5	8.7	8.8



EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
(US\$ millions)				
Total debt outstanding and disbursed	7,364	10,077	2,326	..
IBRD	57	0	0	0
IDA	601	1,532	553	711
Total debt service	249	99	164	..
IBRD	13	0	0	0
IDA	9	26	39	6
Composition of net resource flows				
Official grants	346	357	5,015	..
Official creditors	422	104	306	..
Private creditors	72	23	-45	..
Foreign direct investment (net inflows)	-3	288	364	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	50	0	281	520
Disbursements	86	65	179	132
Principal repayments	13	15	23	0
Net flows	73	50	157	132
Interest payments	10	11	15	6
Net transfers	64	38	140	126



Note: This table was produced from the Development Economics LDB database.

9/24/08

MAP SECTION

