



Ethiopia: SME Finance Project (P148447)

AFRICA | Ethiopia | Finance & Markets Global Practice |
IBRD/IDA | Investment Project Financing | FY 2016 | Seq No: 2 | ARCHIVED on 18-Nov-2016 | ISR25624 |

Implementing Agencies: National Bank of Ethiopia, Development Bank of Ethiopia, Ministry of Industry

Key Dates

Key Project Dates

Bank Approval Date:17-May-2016

Effectiveness Date:01-Sep-2016

Planned Mid Term Review Date:30-Oct-2018

Actual Mid-Term Review Date:--

Original Closing Date:31-Aug-2022

Revised Closing Date:31-Aug-2022

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The project development objective is to increase access to finance for Eligible Small and Medium Enterprises in the Recipient's territory.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

Name

Financial Services to SMEs:(Cost \$193.00 M)

Enabling Environment for SME Finance:(Cost \$0.80 M)

Business Development Services for SMEs:(Cost \$2.50 M)

Project Management, Communication and Impact Evaluation:(Cost \$3.70 M)

Overall Ratings

| Name | Previous Rating | Current Rating |
|--------------------------------------|-----------------|----------------|
| Progress towards achievement of PDO | ● Satisfactory | ● Satisfactory |
| Overall Implementation Progress (IP) | ● Satisfactory | ● Satisfactory |
| Overall Risk Rating | ● Substantial | ● Substantial |



Implementation Status and Key Decisions

A World Bank mission visited Addis Ababa, Ethiopia from September 19 – 23, 2016. The mission liaised with the Ministry of Finance and Economic Cooperation, Ministry of Industry, National Bank of Ethiopia, Development Bank of Ethiopia, Federal Small and Medium Manufacturing Development Agency, selected Commercial Banks, Micro Finance Institutions and leasing companies, development partners, and other relevant stakeholders to advance project implementation.

The main objective of the mission was to work closely with the Project Implementation Unit in the Ministry of Industry and the Project Management Team in the Development Bank of Ethiopia to kick-off the project's implementation on all the relevant components. In particular the team worked to: (i) ensure that there is full understanding of the provisions contained in the Project Implementation Manual; (ii) review the establishment of the implementation arrangements agreed upon in the Project Appraisal Document and hold the first meeting of the SMEFP Implementation Committee; (iii) work with the DFID-funded PEPE team to implement the technical assistance for the credit facility; (iv) define specific roadmaps to advance with implementation on all the other relevant project's components.

The project team observed good progress on each project component. An update on each component is as follows:

Component 1, Financial Services to SMEs.

The objective of Component 1 is to establish a credit facility providing access to finance for working capital and leasing finance for participating financial institutions (PFIs) for onlending to eligible SMEs.

The mission observed satisfactory progress in the preparatory activities for the implementation of mandatory technical assistance (TA) to potential PFIs. The DFID funded Private Enterprise Program for Ethiopia (PEPE), managed by Enterprise Partners (EP), which is responsible for the TA facility under component 1 of the project, is also supporting the DBE in conducting initial due diligence of potential PFIs which is a condition of both receiving the TA and subsequently accessing the credit line. To access the line of credit facility financial institutions would need to be certified by TA providers confirming readiness to engage in on-lending/leasing to the identified SME target market; and their compliance with the eligibility criteria must remain satisfactory at the time of commencement of lending activities and continuously thereafter. This process of preparing for the delivery of TA commenced with the issuance of a request for expression of interest to MFIs, leasing companies and banks. In the case of MFIs, pre-selection criteria were the total number of clients (at least 10,000) and the minimum level of capital (at least ETB 25 mill). There were no pre-selection criteria for banks and leasing companies. Of those that received the letter, 16 MFIs, 5 leasing companies and 14 banks expressed interest to participate in the project.

Following the due diligence process, the finalists will be subject to further needs assessment (i.e. beyond preliminary technical needs assessment based on a representative sample of financial institutions) that will serve as an input to the terms of reference (ToR) for the final design and roll out of the TA program. The selection of the final set of financial institutions for the TA and their needs assessment is expected to be completed by end-November 2016. In addition, Enterprise Partners is preparing the TA program for the DBE aimed at implementation of the institutional development plan developed on the basis of due diligence completed by the World Bank in December 2015. This will be complemented with capacity building support for the project management team (PMT) at the DBE as well as DBE's conversion to International Financial Reporting Standards (IFRS).

Component 2, Enabling Environment for SMEs

The objective of Component 2 is to improve the enabling environment for facilitating SME finance in Ethiopia.

The WBG team completed the detailed diagnostic study which compared Ethiopia's existing secured transactions system with international standards, identifying weaknesses and opportunities for improvement. The main findings and recommendations were presented to the key public and private stakeholders in Addis in April 2016 and received positive feedback. Following this and the endorsement of the recommendations by NBE, the project was designed which received strong support of WBG management. The draft of the Cooperation Agreement has been prepared and signing is expected soon.

The Legal Drafting Committee has been created under the leadership of NBE's Vice Governor, consisting of senior legal experts from NBE and financial institutions who will take the lead in drafting the Movable Property Security Rights Bill. The Committee, together with delegations from Kenya and Zambia, visited Malawi in early September to learn from the successful secured transactions reform in that country where the early results of the registry are very encouraging. Having colleagues there from the other two African countries which both completed the stage of legal reform exposed the Committee to three legal models which should be very useful during the drafting process.

Component 3, Business Development Services to SMEs

The objective of Component 3 is to support SMEs through the provision of tailored Business Development Services (BDS) to address constraints on the demand side, and to make SMEs more bankable.

Several procurements need to be carried out by the PIU to advance activities under Component 3. Following the onboarding of the BDS Specialist in the PIU, terms of reference should be finalized for the BDS needs assessment and the procurement of BDS service providers. Discussions were held with several business development service providers to understand the market for business development services in Ethiopia and to discuss implementation arrangements. Based on initial assessments of the BDS market in Ethiopia, the project team estimates that multiple service providers may be required in order to train the targeted 912 SMEs nationwide during the project life time. Existing service providers have developed high quality offerings, but their scale is limited, with most providers able to deliver training and BDS to approximately 30 to 50 SMEs per year. The scale of existing service providers suggests a need to recruit at least three BDS firms at the outset of the project.

The International Finance Corporation (IFC) and the World Bank explored providing joint implementation support to the Ministry of Industry in the implementation of Component 3 to provide technical support and ensure a high quality of services. If this model proceeds, external financing to support the implementation of these activities within Component 3 by IFC will be explored with the Multi Donor Initiative (MDI).

Component 4 Project Management, Communication, and Impact Evaluation

The objective of Component 4 is to support overall coordination of project activities, and to rigorously measure the impact of the project on the growth of participating SMEs.

Project Management: Core teams within the Ministry of Industry and the Development Bank of Ethiopia have provided strong stewardship of project



activities during the launch phase. Effective project management – in particular by the Director of the Domestic Investors Transformation Directorate in MoI and the Director of the Export Guarantee and Special Fund Administration Bureau in DBE - has enabled the finalization of the Project implementation Manual and subsequently the timely effectiveness of the project. A key priority is now to begin staffing both the MoI PIU and the DBE PMT, so that the full staff complement for the project is in place and all project activities can be launched.

Impact Evaluation: The European Union Delegation (EU) and Department for International Development (DFID) made commitments to funding the impact evaluation component of the project. The impact evaluation activities will be carried out by the Ethiopian Development Research Institute (EDRI) and the World Bank. European Union will provide funding directly to EDRI to cover costs of data collection activities, and DFID will potentially fund other impact evaluation activities through a trust fund. The World Bank, EDRI, DFID, and EU are working to finalize these arrangements and ensure sufficient funding for a comprehensive impact evaluation component.

Risks

Systematic Operations Risk-rating Tool

| Risk Category | Rating at Approval | Previous Rating | Current Rating |
|--|--------------------|-----------------|----------------|
| Political and Governance | ● Moderate | ● Substantial | ● Substantial |
| Macroeconomic | ● Moderate | ● Moderate | ● Moderate |
| Sector Strategies and Policies | ● Low | ● Low | ● Low |
| Technical Design of Project or Program | ● Substantial | ● Substantial | ● Substantial |
| Institutional Capacity for Implementation and Sustainability | ● Moderate | ● Moderate | ● Moderate |
| Fiduciary | ● Substantial | ● Substantial | ● Substantial |
| Environment and Social | ● Low | ● Low | ● Moderate |
| Stakeholders | ● Moderate | ● Moderate | ● Moderate |
| Other | -- | -- | -- |
| Overall | ● Substantial | ● Substantial | ● Substantial |

Results

Project Development Objective Indicators

► Volume of Financial Support to SMEs under the credit facility (Amount(USD), Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|--------------|
| Value | 0.00 | 0.00 | 0.00 | 269000000.00 |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |



► Number of SMEs Reached with Financial Services under the credit facility (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 2152.00 |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

► Portfolio Quality under the credit facility (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 5.00 |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

Overall Comments

Intermediate Results Indicators

► Number of Loans/ Leases disbursed to SMEs under the credit facility (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 3873.00 |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

► Collateral Registry Established (Yes/No, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | N | N | N | Y |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |



► Insolvency Diagnostic Completed (Yes/No, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | N | N | N | Y |
| Date | 17-Aug-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

► Number of SMEs that received training through a BDS Program under the project (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 912.00 |
| Date | 01-Feb-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

► Report drafted on citizen engagement survey (Yes/No, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | N | N | N | Y |
| Date | 20-Apr-2016 | 08-Sep-2016 | 02-Nov-2016 | 31-Aug-2022 |

Overall Comments

Data on Financial Performance

Disbursements (by loan)

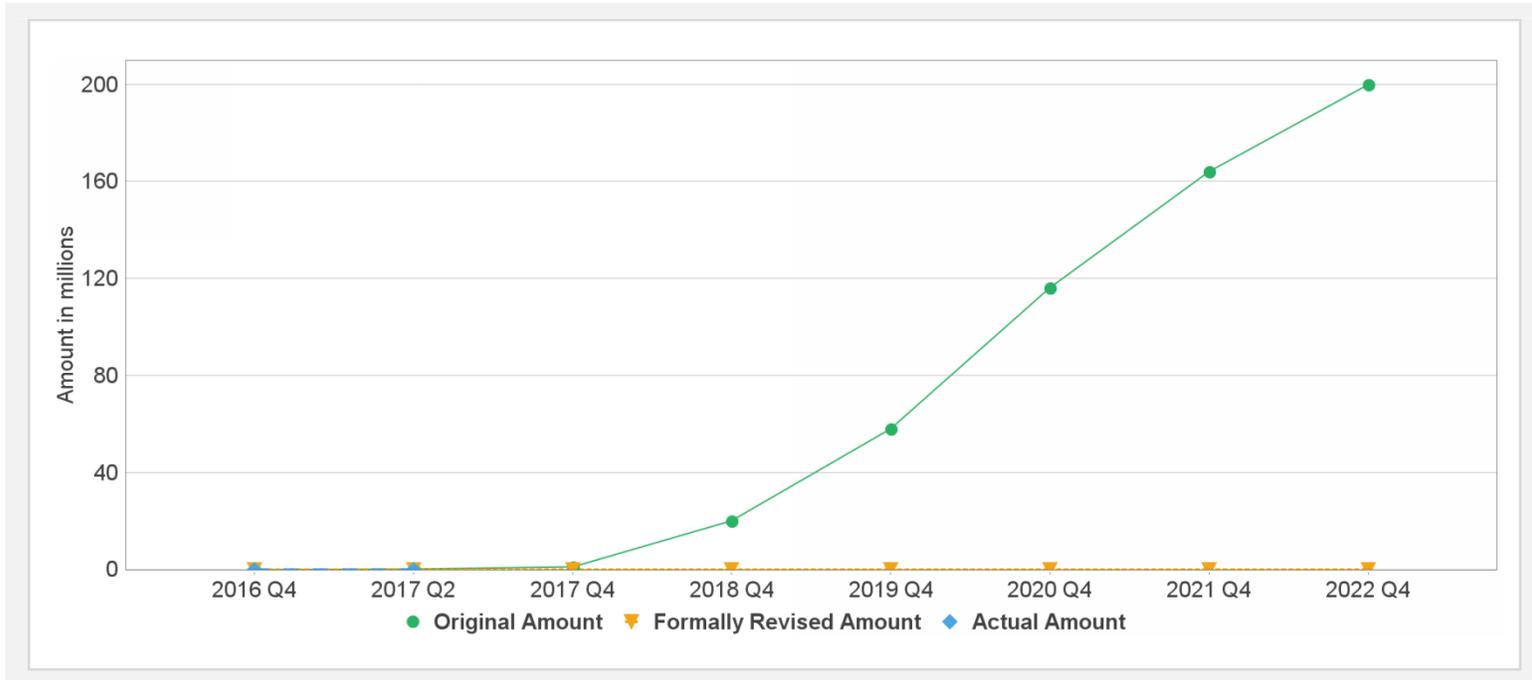
| Project | Loan/Credit/TF | Status | Currency | Original | Revised | Cancelled | Disbursed | Undisbursed | Disbursed |
|---------|----------------|-----------|----------|----------|---------|-----------|-----------|-------------|-----------|
| P148447 | IDA-57930 | Effective | XDR | 144.80 | 144.80 | 0.00 | 0.00 | 144.80 | 0% |

Key Dates (by loan)

| Project | Loan/Credit/TF | Status | Approval Date | Signing Date | Effectiveness Date | Orig. Closing Date | Rev. Closing Date |
|---------|----------------|-----------|---------------|--------------|--------------------|--------------------|-------------------|
| P148447 | IDA-57930 | Effective | 17-May-2016 | 15-Jun-2016 | 01-Sep-2016 | 31-Aug-2022 | 31-Aug-2022 |



Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.