

**INTEGRATED SAFEGUARDS DATA SHEET
AND
PROJECT INFORMATION DOCUMENT
CONCEPT STAGE**

Date prepared/updated: October 08, 2015.

I. Basic Information

1. Basic Project Data

| | | | |
|--|--|-----------------------------------|--|
| Country: Ethiopia | | Project ID: P148447 | |
| | | Additional Project ID (if any): | |
| Project Name: SME Finance Project (P148447) | | | |
| Task Team Leader: Francesco Strobbe | | | |
| Estimated Appraisal Date: 29-Jan-2016 | | Estimated Board Date: 17-May-2016 | |
| Managing Unit: GFM01 | | Lending Instrument: IDA | |
| Sector: Banking (20%), SME Finance (60%), Credit Reporting and Secured Transactions (10%), Other non-bank financial intermediaries (10%) | | | |
| Theme: Micro, Small and Medium Enterprise support (70%), Other Financial Sector Development (30%) | | | |
| IBRD Amount (US\$m.): | | | |
| IDA Amount (US\$m.): 200 | | | |
| GEF Amount (US\$m.): | | | |
| PCF Amount (US\$m.): | | | |
| Other financing amounts by source: | | | |
| Environmental Category: FI-2 | | | |
| Is this a transferred project | | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| Simplified Processing | | Simple <input type="checkbox"/> | Repeater <input type="checkbox"/> |
| Is this project processed under OP 8.00 (Rapid Response to Crises and Emergencies) | | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |

2. Project Objectives:

The objective of this project is to increase sustainable access to finance for SMEs.

3. Project Description:

The project consists of four components:

Component 1: Access to finance for SMEs: This component aims at providing Ethiopian financial intermediaries with the required liquidity and technical assistance needed to address the SME segment. The Development Bank of Ethiopia (DBE) will play a key role by acting at the same time as retailer through its regional branch network and as a wholesaler for participating lease companies and for a selected pool of other financial institutions. It will do so through two main financing windows:

Window 1: *Lease finance.* This window will provide a line of credit to strengthen DBE's capacity to provide lease finance to SMEs both directly through its regional branches and

indirectly through the licensed and eligible lease companies operating in the country. A tailored and compulsory technical assistance will also be provided to DBE branches and to the participating lease companies on how to properly address SMEs' needs in the regions where they operate as well as enhancing their skills on risk management, product design, MIS and funding strategy, etc.

Window 2: *SME lending*. This window will provide a line of credit dedicated to support the working capital and investment finance needs of SMEs. This dedicated liquidity will be channelled directly to SMEs through DBE regional branches as well as indirectly from DBE through a pool of eligible financial institutions with extensive branch network throughout the country and/or committed to serve a specific target clientele. The participating financial institutions would then compete for funds on a first-come-first-served basis. Both, DBE branches and the participating financial institutions will receive compulsory technical assistance on how to reengineer their business models so that they can profitably lend to SMEs.

Component 2: Enabling environment for SME finance: The second component aims at improving the enabling environment for facilitating SME finance in Ethiopia. This would require the following:

- creation of a **collateral registry** (for immovable and movable assets) that would support both the banking and the leasing business;
- enhancement of the existing **credit information system** through the provision of value added services (like credit scoring, marketing services, application processing and portfolio monitoring) that will help financial institutions for quality decision making on credit, risk mitigation and fraud minimization;
- a review of the **insolvency and creditor/debtor regime** to address key bottlenecks to SME lending.
- improvement of legal and regulatory framework for leasing.

Component 3: Technical Assistance to SMEs. The lack of SME finance is also a demand-side problem, with SMEs often being unable to prepare adequate business plans and lacking basic business development skills. The proposed project would therefore support SMEs with tailored training opportunities to address specific constraints on the demand side (e.g. lack of capacity to develop valuable business plans, poor quality of financial statements, inability to manage risk, lack of knowledge of business management, lack of adequate collateral and informality). The training would be provided through specialized experts in cooperation with local training centers.

Component 4: project management, monitoring & evaluation, impact evaluation. The fourth component will focus on the daily project management responsibilities and include a strong monitoring and evaluation activity to continually assess the project's implementation. Moreover making impact evaluation an integral part of the project reflects the desire expressed by stakeholders to systematically investigate the effectiveness of the project. Such analysis will not only allow for a comprehensive stocktaking and review of the project's achievements but it will also help to identify the underlying mechanisms and constraints affecting its mode of functioning. As such it will focus primarily on measuring the development impact of the main project's components.

4. For Category C projects, project location and rationale for finding of little or no environmental or social risk or impact:

N/A

5. For Category FI projects types of activities or sectors likely to be supported by the FI with Bank financing or other financial support, and rationale for classification as Category FI-1, FI-2, or FI-3:

The project will focus on supporting small and medium enterprises with relatively small investment and working capital loans. In terms of the future sub-projects, while they are not limited to specific sectors, they may include small scale manufacturing, transport, trade, hospitality, agriculture, and similar activities – i.e. typical small and medium enterprise activities. The loans will not fund land acquisition or activities on WBG negative list.

The project is categorized as a Financial Intermediary (FI) project and the appropriate FI category is FI-2. This is based on the assumption that the sub-loan portfolio is expected to comprise subprojects that have limited environmental or social risks or impacts that are few in number - generally site-specific, largely reversible, and readily addressed through mitigation measures - or that it may include a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. The project will nevertheless put in place adequate environmental and social measures, including assessment and management of environmental risks and social screening measures to preclude and manage risks related to labor and working conditions (particularly on labor standards and fair treatment of workers).

The full extent of social standards will be determined upon further analysis during preparation.

6. Environmental and Social Safeguards Specialists on the Team:

Chukwudi H. Okafor (GSURR)
Asferachew Abebe (GENDR)

| 6. Performance Standards Applicable | Yes | No |
|--|-----|-----|
| PS 1: Assessment and Management of Environmental and Social Risks and Impacts | X | |
| PS 2: Labor and Working Conditions | X | |
| PS 3: Resource Efficiency and Pollution Prevention | | TBD |
| PS 4: Community Health, Safety, and Security | | TBD |
| PS 5: Land Acquisition and Involuntary Resettlement | | TBD |
| PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources | | TBD |
| PS 7: Indigenous Peoples | | TBD |
| PS 8: Cultural Heritage | | TBD |

7. If PS 1 and PS 2 are NOT applicable, provide a brief explanation why:

N/A

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe key environmental and social risks and impacts likely to be associated with the proposed project, if Category C, or the Bank-supported portfolio, if Category FI:

The project will support relatively small investment and working capital loans with little or no environmental or social impact. However, it is recognized that there may be some business activities in which the environment and social risk and impacts may potentially be more significant and may require commensurate assessment and management (e.g. labor and working standards, inappropriate disposal of waste, or unhealthy or hazardous working conditions). Procedures and guidance will be developed in a manual for screening, assessing, and managing these risks for transactions funded by the project.

2. Describe the key features of the client's Social and Environmental Management System and the capacity to implement it in a responsible manner:

Despite low expected risks, adequate measures will be taken to mitigate potential environmental and social risks, in line with the World Bank Group (WBG) Performance Standards. Specifically, an Environmental and Social Operations Manual (ESOM) will be developed under the project and applied by the Development Bank of Ethiopia and all other participating financial institutions. The capacity of the DBE to assess and mitigate environmental and social risks will also be developed.

3. Describe the key instruments used by the client to identify and assess risks and impacts, and measures taken by the client to address environmental and social risks and impacts of the project. Provide an assessment of client's capacity to implement the measures described:

All participating financial institutions (PFIs) will be required to develop and operate the Environmental and Social Management System (ESMS) commensurate with the

level of environmental and social (E&S) risk in their portfolio and prospective business activities. The ESMS should incorporate relevant principles of Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts. The scope and complexity of the ESMS will depend on the E&S risk of the PFI's lending/investment activities. All PFIs must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labour and Working Conditions related to employment practices and conditions.

The full extent of applicable social standards that may apply will be determined during preparation.

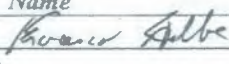

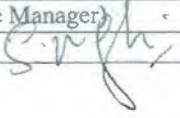
Client's current procedures and capacity will be reviewed during project preparation.

| | |
|--|-----|
| B. Disclosure Requirements Date | |
| For Category FI – FI's Policy Statement and Procedures for Screening and Assessing Risks: | |
| Dates of "in-country" disclosure | TBD |
| Date of submission to InfoShop | TBD |
| If in-country disclosure of any of the above documents is not expected, please explain why: | |

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

| | | | |
|--|---------|--------|---------|
| Client's Environmental and Social Management System | | | |
| Has the client developed an appropriately detailed ESMS, and does the client have the technical and organizational capacity to implement it? | Yes [] | No [] | N/A [] |
| Labor and Working Conditions | | | |
| Does the client have a written human resources policy available to all employees that describes labor and working conditions? | Yes [] | No [] | N/A [] |
| Monitoring and Reporting | | | |
| Has the client agreed to submit an annual Environmental and Social Performance Report to the Bank to report progress on implementation of its ESMS, and does the Legal Agreement contain this provision? | Yes [] | No [] | N/A [] |

D. Approvals

| Signed and submitted by: | Name | Date |
|---|---|-------------|
| Task Team Leader: | Francesco Strobbe  | 10/21/2015 |
| Environmental Specialist: | Asferachew Abebe | |
| Social Development Specialist: | Chukwudi Okafor | |
| Additional Environmental and/or Social Development Specialist(s): | | |
| Approved by: | | |
| Regional Safeguards Coordinator: | Hanneke Van Tilburg  | 10/26/2015 |
| Comments: | | |
| Practice Manager: | Smita Wagh (acting Practice Manager)  | 10/20/2015 |
| Comments: | | |