

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

Date prepared/updated: February 19, 2016.

**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: 15-Feb-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: EUR 70 mill from European Investment Bank			
Environmental Category: FI-2			
Is this a transferred project		Yes [ ]	No [X ]
Simplified Processing		Simple [ ]	Repeater [ ]
Is this project processed under OP 8.00 (Rapid Response to Crises and Emergencies)		Yes [ ]	No [X ]

**2. Project Objectives:**

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

**3. Project Description:**

**The project consists of four components:**

**Component 1: Financial Services to 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 financial institutions (PFIs) – i.e. lease companies and for a selected pool of other financial institutions (i.e. commercial banks, microfinance institutions). In the context of DBE, Small and Medium Enterprises (SMEs) mean an enterprise in the Agro-processing industries, Manufacturing industries, Tour industries, Construction industries and Mining and Quarries that operates with above 6 employees and has total capital from Birr 500,000 to Birr 7.5 million. The definition of SMEs adopted by the project will be aligned to the one contained in the Lease

Financing Policy for SMEs (Code-DBE/03/2007) in terms of minimum number of employees (i.e. above 6). The project will also fix the maximum number of employees per SME at 100. Moreover, under component 1, working capital loans to SMEs will be limited to a maximum of Birr 10 million, while lease finance loans will be aligned with the Lease Financing Policy requirements: i.e. a maximum lease loan size of Birr 30 million. The policy also indicates that DBE will be focusing on direct provision of lease finance for SMEs in need of loans from Birr 1-30 million, while lease companies will serve SMEs with lease finance needs of below Birr 1 million. SMEs operating in mining and quarries will not be served under the project.

Component 1 will have 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 (externally funded through other projects) will also be provided to DBE branches and to the participating lease companies on how to properly address SMEs' financing needs, including steps to lend in environmentally and socially sustainable manner.

**Window 2:** *SME lending*. This window will provide a line of credit dedicated to support the working capital needs of SMEs. This dedicated liquidity will be channelled from DBE to SMEs through a pool of eligible financial institutions (i.e commercial banks and MFIs) with extensive branch network throughout the country and/or committed to serve a specific target clientele.

**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;
- a review of the **insolvency and creditor/debtor regime** to address key bottlenecks to SME lending;

**Component 3: Business Development Services 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 lease finance and working capital loans.** In terms of the future sub-projects, while they are not focused to specific sectors, they will be limited to small scale manufacturing. The loans will also not fund activities on the Project Exclusion List<sup>1</sup>. All subprojects supported by the Bank shall comply with applicable national and local laws and regulations.

**The project is categorized as a Financial Intermediary (FI) project and the appropriate FI category is FI-2 in accordance with OP4.03 (World Bank Performance Standards for Private Sector Activities).** This categorization is based on the reasonable expectation that the sub-loan portfolio would be comprised of sub-projects that have potentially limited environmental or social risks or impacts that are not significant, generally site-specific, largely reversible, and can be readily addressed through mitigation measures.

**6. Environmental and Social Safeguards Specialists on the Team:**

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

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<sup>1</sup> The Project Exclusion list will include IFC Exclusion List, acquisition of land, and mining and quarrying. IFC Exclusion List can be found at:  
[http://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+projects+database/projects/aips+added+value/ifc\\_project\\_exclusion\\_list](http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/aips+added+value/ifc_project_exclusion_list)

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

Relevant principles of PS1 and PS2 apply to the project. The ESMS will establish a procedure for screening, classification, review and reporting for subproject selection as part of the credit review process. DBE will ensure compliance with applicable national and local laws and regulations, as well as screening against the Project Exclusion List is undertaken for all subprojects. DBE has disclosed Policy Statement and the Summary of Procedures for Screening as per OP4.03. Furthermore, the ESMS will ensure that proposed business activities that may present higher social and/ or environmental risks will be screened out in a manner consistent with the World Bank Performance Standards 1-8.

For further explanation on the applicability of the Performance Standards, refer to section II-A-2 below.

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

## **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 leasing and working capital loans with relatively low potential environmental and social risks and impacts.** However, it is recognized that there may be some business activities in which the environment and social risk and impacts may potentially be significant and may require commensurate assessment and management. Business activities of SMEs can potentially generate impacts on the environment, present a hazard to human health or negatively affect local communities as a result of improper planning or management. Environmental and social (E&S) concerns for SMEs are typically associated with production processes or other activities that generate emissions and byproducts that are potentially harmful to the environment, employees and communities (e.g. issues around labor standards, inappropriate disposal of waste, or unhealthy or hazardous working conditions). However under the Project, the manufacturing sector is defined in line with the provisions of the Lease Financing Policy for SMEs (Code-DBE/03/2007). Article 2.1.1 of the DBE's Lease Financing Policy for SMEs indicate that priority areas for SMEs are (i) Agro-processing industries; (ii) Manufacturing Industries; (iii) Tour Industries; (iv) Construction industries; (v) Mining and Quarries. The latter, however, are excluded from the project's beneficiaries due to potential negative impact on the environment. As part of its due diligence, DBE will make

sure that PFIs screen all transactions funded under the project against relevant principles of applicable Performance Standards, Project Exclusion List, and ensuring compliance with applicable national and local laws and regulations. Furthermore, any proposed business activities that may present higher social and/or environmental risks will be screened out in a manner consistent with the World Bank Performance Standards 1-8.

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

**Adequate measures will be taken to mitigate potential environmental and social risks, in line with the World Bank (WB) Performance Standards.** Specifically, Development Bank of Ethiopia will put in place and implement an adequate environmental and social management system ("ESMS"), acceptable to the Bank. The ESMS will enable DBE to identify, assess, and manage environmental and social risks and impacts associated with its Bank-supported portfolio of sub-projects.

The DBE ESMS will incorporate relevant principles of Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts. The ESMS will also ensure that proposed business activities that may present moderate to high risks will be operated in a manner consistent with the WB Performance Standards triggered. DBE will also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions through development and implementation of appropriate human resource policies and procedures, acceptable to the Bank, and will require the same of the PFIs through the relevant credit agreements between DBE and PFIs.

Further, the Borrower's institutional capacity, as well as that of PFIs, in addressing environmental and social issues will be enhanced through assigning dedicated staff to be responsible for the ESMS and training them. The Borrower institutional capacity in addressing environmental and social issues will be further assessed, and the relevant entities will receive needed guidance from the Bank environmental and social safeguards specialists.

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:

**Through its ESMS, DBE will ensure that all PFIs also develop and apply an ESMS commensurate with the level of social and environmental risks in their portfolio and prospective business activities.** The scope and complexity of the PFI 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 Labor and Working Conditions. The ESMS will account for a full scope and scale of environmental and social risks present in SME financing under the project. The ESMS will also build on revision and update of DBE's 'Environmental Assessment Procedure' and 'Environmental Assessment Policy' which outlines the decision-making process, policies, and procedural steps it uses during the implementation of WEDP. It will, at a minimum, specify: (i) organizational capacity, including duties and responsibilities within the DBE for managing environmental and social issues as it relates to sub-project/sub-loan/lease financing evaluation procedures; (ii) procedures for screening and

assessing risks and impacts of sub-projects or individual loan transactions; and (iii) provisions for periodic progress reports to financial institutions' senior management. DBE will also ensure that all participating financial institutions (PFIs) develop an ESMS commensurate with the level of social and environmental risks in their portfolio, and prospective business activities. DBE ESMS will include adequate procedures to ensure that all subprojects supported by the Bank comply with applicable national and local laws and regulations, as well as are screened against Project Exclusion List.

The World Bank's assessment of the institutional capacity, guidelines and procedures, and practices in environment and social management concludes that the DBE has 'Environmental Assessment Procedure' and 'Environmental Assessment Policy' with limited social aspects and no dedicated staff with technical expertise to manage environmental and social risks. Operationally, DBE has experience in implementing WB's funded WEDP, and outsources its safeguards due diligence function to a consulting firm that have well-functioning team for environmental and social management, and it's overall exposure to environmental and social risk tends to be very low. To address this gap, in addition to including social dimensions in the ESMS, the DBE's institutional capacity, as well as that of PFIs, in addressing environmental and social issues will be enhanced through by hiring and assigning dedicated and qualified environmental and social specialists to be responsible for the ESMS and training them. The Borrower institutional capacity in addressing environmental and social issues will be further assessed, and the relevant entities will receive needed guidance from the Bank environmental and social safeguards specialists.

**DBE has disclosed publicly elements of its ESMS and will provide an annual environmental and social performance report ("ESPR") to the Bank.**

Client's current E&S procedures and capacity will be further reviewed during and implementation.

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

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

<b>Client's Environmental and Social Management System</b>			
Has the client developed an appropriately detailed ESMS, <u>and</u> does the client have the technical and organizational capacity to implement it?	Yes [ ]	No [+]	N/A [ ]
<b>Labor and Working Conditions</b>			

Does the client have a written human resources policy available to all employees that describes labor and working conditions?	Yes [ + ]	No [ ]	N/A [ ]
<b>Monitoring and Reporting</b>			
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*

<b><i>Signed and submitted by:</i></b>	<b><i>Name</i></b>	<b><i>Date</i></b>
Task Team Leader:	Francesco Strobbe	29/01/2016
Environmental Specialist:	Asferachew Abebe	27/01/2016
Social Development Specialist:	Chukwudi Okafor	27/01/2016
Additional Environmental and/or Social Development Specialist(s):		
<b><i>Approved by:</i></b>		
Regional Safeguards Coordinator:	Hanneke Van Tilburg	03/03/2016
Comments:		
Practice Manager:	Irina Astrakhan (Practice Manager)	03/30/2016
Comments:		