



Ethiopia: SME Finance Project (P148447)

AFRICA | Ethiopia | Finance & Markets Global Practice |
IBRD/IDA | Investment Project Financing | FY 2016 | Seq No: 4 | ARCHIVED on 06-Dec-2017 | ISR30229 |

Implementing Agencies: National Bank of Ethiopia, Development Bank of Ethiopia, MOFEC, Federal Small and Medium Manufacturing Industry Development Agency

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)	● Moderately Satisfactory	● Moderately Satisfactory
Overall Risk Rating	● Substantial	● Substantial



Implementation Status and Key Decisions

A World Bank mission visited Addis Ababa, Ethiopia from November 6th - 10th, 2017. The mission liaised with the Ministry of Finance and Economic Cooperation (MoFEC), Ministry of Industry (Mol), National Bank of Ethiopia (NBE), Development Bank of Ethiopia (DBE), Federal Small and Medium Manufacturing Industries Development Agency (FeSMMIDA), development partners, and other relevant stakeholders to advance project implementation.

The main objective of the mission was to work with the Project Implementation Unit at FeSMMIDA and the Project Management Team at DBE to advance the project's implementation on all the relevant components. In particular the team worked to: (i) review implementation progress following the disbursement of the first tranche of US\$12 million to DBE for leasing; (ii) review implementation progress with the newly transferred PIU in the FeSMMIDA; (iii) assess implementation progress with the DFID-funded Enterprise Partners on the technical assistance for the credit facility; (iv) discuss with NBE and Commercial Banks on how the newly imposed cap on outstanding credit growth of commercial banks may affect project implementation; and (v) define specific roadmaps to advance with implementation on all other project components.

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

Component 1: Financial Services to SMEs

This component is progressing substantially. The prerequisite TA program is underway, the first disbursement of USD \$12 million has taken place, DBE leasing business has approved a pipeline approximately US\$37 million of lease finance applications for SMEs, and DBE is also bracing to commence with wholesale lending operations under its working capital window.

Successful graduation from the technical assistance program is a prerequisite for accessing the credit line and to date DBE's leasing unit and four banks have been certified, while the process to certify the first four MFIs is underway and is expected to be completed by December 2017. Commencement of TA to regional leasing companies is pending a detailed assessment to be completed in January 2018, while they have already participated in the Training of Trainers (ToT) provided by IFC to DBE leasing and NBE. The technical assistance support is funded externally through DFID and implemented by Enterprise Partners (EP), with TA to leasing companies delivered in cooperation with IFC through financing from the Multi-Donor Initiative (MDI) fund. SMEFP TA is organized around five pillars, with the following progress recorded to date:

- *Institutional support to DBE:* The DBE Advisor started assignment in October 2017 and the forthcoming support will be extended in the following areas that have been identified in the needs assessment stage: non-performing loans, HR, risk management, credit training, strategic planning, project financing. During the last six months, the PMT has been supported with revisions to loan appraisal tools, updating of procedures, and staff training;
- *TA on DBE's lease finance business:* following completion of technical needs assessment, TA support focused on conducting review of the pipeline portfolio. Training of branch and district staff in Addis Ababa and Adama was completed by IFC team with a total of 244 staff trained. Training materials were revised and in-depth training sessions were held for senior branch staff from the two certified districts. Lastly, 30 staff from the DBE, regional leasing companies and the NBE attended a two-week ToT Business Edge and lease financing trainings and 16 of them have been pre-qualified for certification;
- *TA to five regional capital goods companies:* This TA has yet to commence following completion of ToR and expected recruitment of a consultant in January 2018.
- *TA to MFIs:* following completion of technical needs assessment, initial TA was delivered and four Microfinance Institutions (MFIs) (AdCSI, ACSI, Wasasa, VisionFund Ethiopia) are expected to be certified by December 2017;
- *TA to Banks:* following completion of technical needs assessment, pre-certification TA was delivered and the following four banks were subsequently certified as PFIs: Awash Bank, United Bank, Berhan International Bank, and Enat Bank.

In August 2017, the project has disbursed US\$12 million for DBE's leasing window, following DBE's certification and EP's assessment of initial pipeline for lease finance. DBE has subsequently commenced the process of acquiring equipment for 36 SME clients. Given that most of the equipment is imported, the delivery and installation of equipment may take up to six months.

As of end-September 2017, DBE leasing business has approved a pipeline of approximately US\$37 million of lease finance applications for SMEs operating in eligible sectors in excess of the already disbursed US\$12 million, while the demand for lease finance has been estimated to reach additional US\$87 million by end June 2018. However, DBE cannot commence with procurement of any additional equipment due to shortage of foreign



currency expected to be supplied through the project given the current project disbursement ceiling of US\$12 million. DBE is also bracing to commence with wholesale lending operations under its working capital window to four banks and four MFIs (upon completion of the ongoing certification process for MFIs) with the initial planned disbursement of at least US\$12 million for this well-established business line. Based on the applications received from these eight institutions to date, the total estimated demand for working capital is around US\$230 million through June 2018.

The demand for liquidity clearly exceeds the project capacity with the current disbursement ceiling of US\$12 million. Each additional disbursement would require preparation of statement of expenditures prior to releasing a new tranche. This process can take up to six months under the leasing window as it requires the installation of leased equipment. Under these circumstances, the World Bank is in the process of assessing the information received from the project to determine the adequate increase in the current disbursement ceiling of US\$12 million.

The full scope and funding for the TA to the PFIs and DBE under component 1 is yet to be finalized. While the TA to the PFIs has started in a phased approach, a delay in finalizing the scope of the TA and availability of funding could slow the certification process for the remaining PFIs and delivery of mandatory TA to the financial institutions participating under the working capital window.

Component 2 Enabling Environment for SME Finance

The Bank team is providing TA to a Legal Drafting Committee created under the leadership of NBE's Vice Governor, consisting of senior legal experts from NBE and financial institutions who are taking the lead in drafting a proclamation to provide for Movable Property Security Rights Registration. The draft proclamation has been finalized and submitted to stakeholders for consultation.

The PIU has finalized a ToR to undertake a diagnosis of Ethiopia's insolvency regime. The WB has provided a no objection to proceed with the procurement. Further, two delegates from the NBE attended the Africa round table on insolvency reform that took place in Mauritius from November 9 - 10 to inform the insolvency regime reform process. The initiative was aimed at introducing delegates across the continent to the various insolvency and restructuring tools that are available in an insolvency scenario, with the emphasis on encouraging and supporting insolvency reform and implementation capacity. The participating team found the event very useful to gather experiences and lessons across the continent from discussion between policy makers, judges, regulators, practitioners and lending experts in the field. Moreover, the platform also provided the team the opportunity to consult with a WB insolvency expert to further refine a ToR prepared to commission a consultancy service to undertake a diagnostic of Ethiopia's on debt enforcement and insolvency regime.

Component 3 Business Development Services to SMEs

The procurement for a BDS needs assessment is underway, and the procurement for the BDS service providers will now begin. In addition, the PIU is undertaking an assessment of the needs of public BDS providers, namely the TVET Centers of Excellence, and will submit a proposed plan and budget for capacity building of the centers, which will be undertaken in parallel to the delivery of BDS through private providers. Selection of the private BDS providers to deliver services to SMEs is the key priority for this component, and is expected to be completed by May 2018.

Component 4 Project Management, Communication, and Impact Evaluation

Project Management: The PIU Coordinator is recruited and on board. Currently, the PIU is staffed with key specialists: Non-Financial Services Coordinator, Monitoring and Evaluation Specialist, Procurement Specialist and Financial Management Specialist; and the PIU is fully operational. Following project restructuring, the project office in FeSMMIDA has been renovated and office set up is in progress to move the PIU from its current location in Mol to FeSMMIDA. The Project Steering Committee meeting was held in August 2017 and reviewed the project progress so far and the annual work plan and budget. The meeting emphasized the need to expedite provision of financial services to SMEs as leasing finance to SMEs is a top priority of the government. The steering committee endorsed the project progress report and approved the project annual work plan and budget (1.03billion Birr) for Ethiopian fiscal year 2010 (i.e. July 8, 2017 to July 7, 2018).

Monitoring & Evaluation: M&E staff are in place in both the PMT and the PIU. The World Bank will provide appropriate capacity building and training to ensure timely data reporting on the project results indicators. Additional tracking indicators will be developed and monitored as needed with the PIU and PMT. Arrangements for the project's client registration system - which form the core of project M&E - are underway. EDRI is leading the design of the registration system and client database. Client registration forms have been developed, and the registration process has been included in the credit



facility agreements signed between DBE and PFIs. Enterprise Partners and EDRI are providing training for DBE branches and for PFIs on how to register clients. EDRI will finalize the project database and make an online version of the client database available to all project implementers by January 2018. Ultimately, the PIU will maintain responsibility for managing the database and for overall project monitoring and evaluation, including using the database to generate reports, identify trends, and respond to client needs.

Impact Evaluation: The EU and DFID are providing funding for the impact evaluation component of the project. The impact evaluation activities are being carried out by the EDRI and the World Bank. The first step in the project's impact evaluation will be to launch a baseline survey for participating SMEs. EDRI has developed a draft baseline questionnaire. In December 2017, EDRI will launch the baseline survey of SMEs registered for the project, starting with those on the lease financing backlog list from DBE.

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	● Moderate	● Low
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	12,000,000.00	269,000,000.00
Date	17-Aug-2016	05-May-2017	10-Nov-2017	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	36.00	2,152.00
Date	17-Aug-2016	05-May-2017	10-Nov-2017	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	05-May-2017	10-Nov-2017	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	36.00	3,873.00
Date	17-Aug-2016	05-May-2017	10-Nov-2017	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	05-May-2017	10-Nov-2017	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	05-May-2017	10-Nov-2017	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	05-May-2017	10-Nov-2017	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	05-May-2017	10-Nov-2017	31-Aug-2022

Overall Comments



Data on Financial Performance

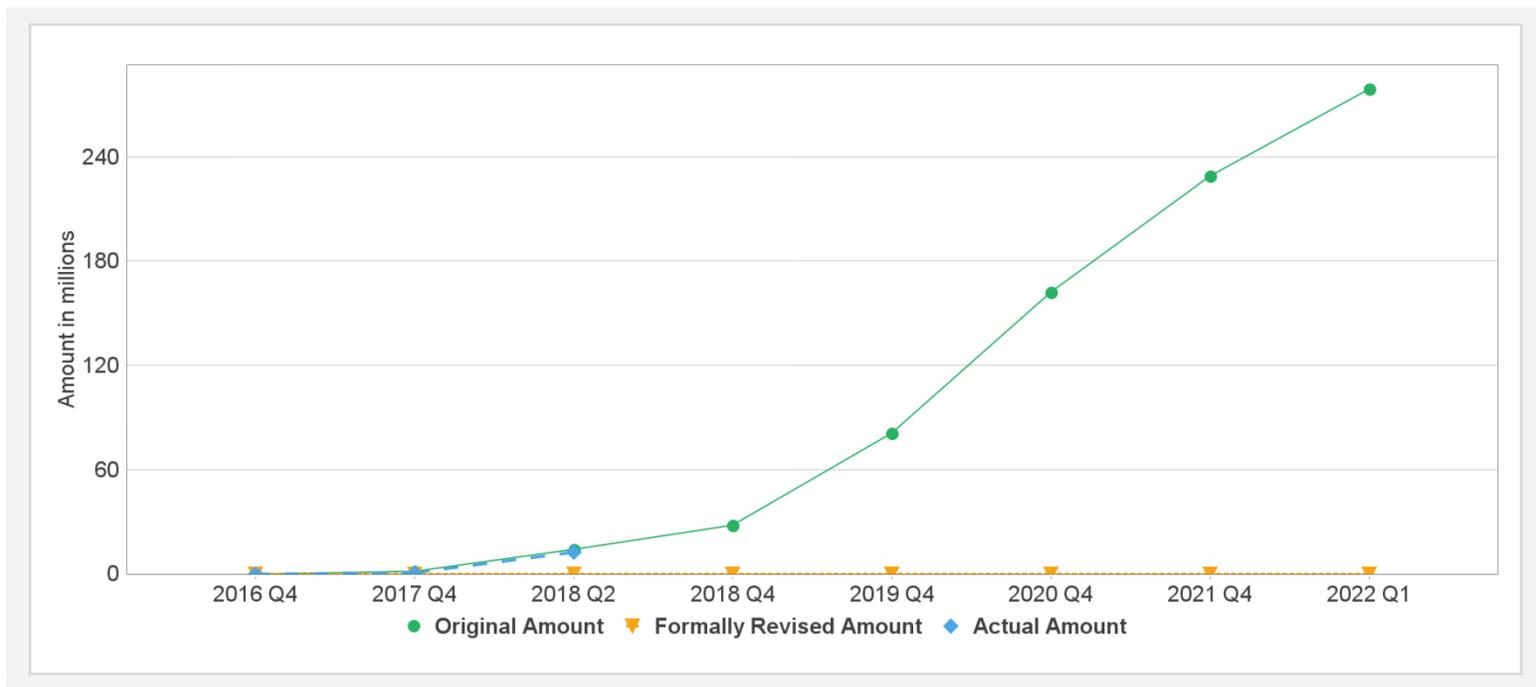
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P148447	IDA-57930	Effective	USD	200.00	200.00	0.00	12.50	191.46	6%

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

Level 2 Approved on 20-Sep-2017

Related Project(s)



There are no related projects.
