I. Project Context

Country Context
Stimulating entrepreneurship can contribute substantially to non-farm income generation and employment in Ethiopia. Since 2001, the Ethiopian real GDP per capita has grown by more than 6% on average per year. However, even though the private sector has expanded rapidly in Ethiopia for the last decade, it has done so from a low starting point. The formal private sector is still very small; paid work in this sector accounts for less than 5% of total employment. Most people are dependent on subsistence agriculture, and around 80% of the workforce makes a living in agriculture. The high population growth and a rapid acceleration of urbanization (World Bank 2010) have contributed to a large and increasing fraction of people in the micro and small enterprise (MSE) sector. Some of these, however, have a large potential for income and employment growth but are lacking the necessary skills, services and support to grow their businesses.

MSEs will have to play a major role during the transformation of the Ethiopian economy. Experience from a range of countries indicate that the Ethiopian economic growth will not continue unless a structural transformation takes place where workers move from subsistence agriculture to higher productivity activities. The manufacturing sector, which has played the lead role in initial stages of such transformations, has been growing in value terms at similar rates as GDP in Ethiopia but remains miniscule in comparison to the total labor force. Only around 13 percent of the employed population in urban areas is engaged in manufacturing as of 2011, and the corresponding annual growth in employment has been a modest 4 percent during the last three years (Central Statistical Agency 2009, 2010 and 2011). While there are many initiatives in Ethiopia to spur high-productive labor intensive production, where the expansion of the rose farm industry is one success story, it is also recognized that the micro and small enterprises have to play a role in the transformation (Government of Ethiopia Growth and Transformation Plan 2010/11 – 2014/15, World Bank 2011).

II. Sectoral and Institutional Context
The smaller the business, the lower its productivity, so making MSEs grow is key to income growth. However, MSE growth is limited by entrepreneurs' low education, skills and knowledge (technical, entrepreneurial and managerial). Given that skills and knowledge are important for business development and growth, this is a main challenge for Ethiopian MSEs. Unfortunately, the availability of training is limited and the quality of services is often low. Only 7 percent of all MSEs and 6 percent of women in MSEs had access to training (Ethiopia Development and Research Institute -EDRI, 2004). Moreover, the training is not tailored well to the needs of those who manage these enterprises, particularly the needs of female entrepreneurs (Triodos Facet 2011, Grunder 2010).

Lack of access to finance is one of the biggest constraints for MSE development in Ethiopia (GTZ 2007, World Bank 2009b, Triodos Facet 2011). Ethiopia is among the most under banked countries in Sub-Saharan Africa (2010 Doing Business), and access to finance is listed as the most severe hindrance by entrepreneurs themselves. The Ethiopian microfinance sector is relatively young (started in 1997) and consists of 31 regulated MFIs that reach over 2.5 million clients (June 2011) with an outstanding loan balance of Birr 6.5 billion (384 million USD) and a balance of saving of Birr 3.4 billion (199 million USD). The MFIs have a rural orientation and largely work with the group-lending methodology. The industry is very concentrated, with more than 80 percent of the clients (and more than 90 percent of outstanding loans) being served by the 5 largest MFIs. Moreover, as these large MFIs are restricted to their own “territory” – being one of the regions – competition in the industry is very limited. These 5 largest MFIs are also very much influenced by their respective regional governments, which practically own the MFI and provide below market-rate funds. MFIs are supervised by the National Bank of Ethiopia and operate within a clear regulatory framework. The Ethiopia Investment Climate Assessment 2006 finds the huge collateral requirement to be a critical obstacle as the value of collateral is one of the highest in the developing world (173 percent of loan amount). Women entrepreneurs face higher barriers than men, especially in providing collateral. Most assets accepted by lenders are registered to men and there are cultural barriers for women using collateral, so this avenue of finance is almost closed for female entrepreneurs. Even if the number of microfinance institutions doubled in the last decade and total lending and number of clients has increased rapidly, the situation for individual female entrepreneurs in the cities remains the same. MFI lending is almost entirely group based and the average loan size is very low – only Birr 2,200 (USD 140) in 2009. Hence, the current MFI lending practice is not suited for growth oriented women entrepreneurs.
Substantial opportunities exist to increase earnings of existing MSEs by providing the operators with the necessary entrepreneurial and technical skills, facilitating the utilization of more productive technologies and making finance for such investments available. High import costs result in high prices on most imported goods, giving considerable scope to domestic entrepreneurs to profit from this price differential. Moreover, since well-managed light manufacturing firms in Ethiopia have a comparable productivity to similar firms in China, there is a huge untapped potential for Ethiopian entrepreneurs to use existing simple technologies to compete with imports of simple manufactured products (World Bank 2011). In Ethiopia, three government technical institutes are mandated to provide technical support and technology transfer to selected manufacturing industries – the Textile Industry Development Institute, the Leather Development Institute and the Metal Industry Development Institute. These have attracted quite some donor attention and support given the perceived potential in these sectors for export, income and employment growth. This upgrading of the institutes can also benefit MSEs through transfer of technology and technical assistance especially to strengthen the clusters in the cities.

The new GoE MSE Strategy provides a coherent and suitable framework for support to growth oriented female operated MSEs aiming at improving the provision of demand-driven business development services, high quality technical training and technology transfer. Nevertheless, there are different levels of understanding and practice in implementing institutions (REMSEDA, Technical and Vocational Education and Training (TVET) institutions and One Stop Shops) with respect to how the new strategy should guide the support. In particular, there is not a clear understanding and appreciation of demand driven approaches, the benefits of stimulating competition and the role of private initiative and entrepreneurship. It will be critical to create a level of awareness of the new strategies for MSE development, build capacity in all implementing institutions and shift the mindset of involved personnel away from central planning and towards market based approaches. This process will enable them to respond to the demands of the changing environment.

### III. Project Development Objectives

The project development objective of the WEDP is to increase the earnings and employment of MSEs owned or partly owned by the participating female entrepreneurs in the targeted cities. This will be achieved by: i) tailoring financial instruments to the needs of the participants and ensuring availability of finance; and ii) developing the entrepreneurial and technical skills of the target group and supporting cluster, technology and product development for their businesses.

### IV. Project Description

#### Component Name

- **Component 1: Microfinance.** Aims at broadening the outreach of existing MFIs in urban cities & enabling them to supply financial instruments in accordance with targeted women entrepreneurs’ demand.
- **Component 2: Entrepreneurial Skills, Technology and Cluster Development.** Aims to develop growth oriented women entrepreneurs’ skills facilitate their access to more productive technologies.
- **Component 3: Project Management, Advocacy and Outreach, Monitoring & Evaluation and Impact Evaluation**

### V. Financing (in USD Million)

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<tr>
<td>International Development Association (IDA)</td>
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<td>UK British Department for International Development (DFID)</td>
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<tr>
<td>Total</td>
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### VI. Implementation

Ministry of Urban Development & Construction is mandated by MoFED to be the responsible Ministry to host the WEDP program and have the coordinating role with other Ministries. The Ministry has restructured recently to include the Federal Micro and Small Enterprise Development Agency, which has the mandate for overall coordination of the Government’s MSE development efforts (MSE Development Strategy 2011) - a role it will also assume for WEDP - and will coordinate on the key issues with the Ministry of Women Child & Youth Affairs, the National Bank of Ethiopia (who regulates the MFI sector), Development Bank of Ethiopia (who will implement the Microfinance component), the TVET Agency and Colleges and other stakeholders. WEDP will make use of existing structures and institutions, in particular the Government institutions for MSE support. Moreover, the private and non-profit sector will be included in implementation to the extent possible.

### VII. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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<td>Pest Management OP 4.09</td>
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<td>Safety of Dams OP/BP 4.37</td>
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</table>
VIII. Contact point

World Bank
Contact: Yasmin Tayyab
Title: Senior Social Development Specialist
Tel: 5358+6020 /
Email: ytayyab@worldbank.org

Borrower/Client/Recipient
Name: GOVERNMENT OF ETHIOPIA
Contact: Ato Sufian Ahmed
Title: Minister
Tel: 251111560123
Email:

Implementing Agencies
Name: Federal Micro and Small Enterprise Development Agency
Contact: Ato Gebremeskel Challa
Title: Director General
Tel: 251-0911254312
Email: gmchalla@gmail.com

IX. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop