



Ethiopia: SME Finance Project (P148447)

AFRICA | Ethiopia | Finance, Competitiveness and Innovation Global Practice |
IBRD/IDA | Investment Project Financing | FY 2016 | Seq No: 6 | ARCHIVED on 12-Dec-2018 | ISR34810 |

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

Key Dates

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Bank Approval Date: 17-May-2016	Effectiveness Date: 01-Sep-2016
Planned Mid Term Review Date: 20-May-2019	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	● Moderately Satisfactory
Overall Implementation Progress (IP)	● Satisfactory	● Moderately Satisfactory
Overall Risk Rating	● Substantial	● Substantial

Implementation Status and Key Decisions

A World Bank Implementation Support Mission for Ethiopia Small and Medium Enterprise Finance Project (SMEFP) took place from November 12th to 16th, 2018. The mission liaised with officials and experts from the Federal Small and Medium Manufacturing Industries Development Agency (FeSMMIDA), Development Bank of Ethiopia (DBE), Ethiopia Development Research Institute (EDRI), development partners, and other relevant stakeholders to advance project implementation. The main objective of the mission was to work with the Project Implementation Unit (PIU) at FeSMMIDA and the Project Management Team (PMT) at DBE to advance the project's implementation across all components. In particular the team worked to: (i) find ways to expediate disbursement of the project; (ii) review implementation status of the BDS component; (iii) assess implementation progress with the UK Department for International Development (DFID)-funded Enterprise Partners on the technical assistance (TA) for the credit facility; and (iv) define specific roadmaps to advance with implementation on all project components.



Component 1: Financial Services to SMEs

This component is implemented by the DBE. The component is comprised of a credit facility providing access to finance for working capital and leasing finance for participating financial institutions (PFIs) for on lending to eligible SMEs. The liquidity support is complemented with mandatory technical assistance (TA) aimed at supporting financial institutions in designing, piloting and rolling out financial products utilizing novel lending methodologies to successfully expand their outreach to the target SMEs. This component is also complemented with parallel financing from European Investment Bank in the amount of EUR70 million.

As of 15 November 2018, DBE has withdrawn USD 59.3 million from IDA source and EURO 10 million from EIB source (a total of \$70.2 million). Out of the total withdrawn amount, DBE has allocated \$58 million for direct leasing while the remaining \$12 million has been allocated for working capital loan. For lease financing, DBE has opened Letter of Credit (L/C) for 188 SMEs of which 44 transactions are fully completed (equipment delivered and final agreement signed) while the remaining 144 transactions are under process. For working capital loan, USD 1.9 million from IDA and EUR 0.8 million from EIB has been disbursed to PFIs. The remaining balance approved for working capital loan (USD 3.7 million and EUR 1.2 million) will be disbursed in the coming months. So far, 36 SME have received USD 1.5 million from the working capital window.

The project is on track to achieving FY19 target disbursement of \$75 million, however there has been a slowdown in the disbursement of component 1 funds particularly for lease financing. The mission identified internal and external factors for the slowdown in disbursement and recommended the following actions it: (i) re-allocate funds from leasing to working capital loan; (ii) reallocate funds set aside for each PFI from low-disbursing PFIs to fast-disbursing PFIs; (iii) certify more banks and MFIs to participate in the project; (iv) change disbursement to DBE from statement of expenditure (SOE) to Interim Financial report (IFR) basis, and (v) disburse to PFIs up on presentation of a list of approved loans. The Project implementation manual and credit facility agreement will be revised to reflect these agreements. As these changes do not affect the financing agreement, no project restructuring is required at this stage. But should there be a need for additional and substantive changes, project restructuring will be initiated after the mid-term review which is planned for May 2019.

Component 2: Enabling Environment for SME Finance

This component is implemented by FeSMMIDA. The objective is to improve the enabling environment for facilitating SME finance in Ethiopia. Activities include: (i) creation of a collateral registry and secured transaction law that would support both the lending and the leasing business; and (ii) a diagnostic of the insolvency and creditor/debtor regime to address key bottlenecks to SME lending.

Collateral registry. The draft secured transaction and collateral registry law has been finalized. Currently, it is with the NBE awaiting approval and submission of the proclamation to the Council of Ministers. The next step thereafter will be submission of the proclamation by the Cabinet for Parliament approval. In parallel, procurement for hardware and software for collateral registry has been initiated.

Diagnostic Survey of insolvency regime: It is proposed that the Attorney General office would be a more appropriate agency to take the leading role in implementation, given they are already leading the commercial code revision efforts. But since NBE is responsible for insolvency in the financial sector, it is discussed that it should also play a supporting role. The ToR for the insolvency diagnostic consultancy procurement has been finalized and cleared by the World Bank. However, the PIU received no application before the closing date. The TOR will be advertised again once a proper implementing organization is identified.

Component 3: Business Development Services to SMEs

This component is also implemented by FeSMMIDA. The objective 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. BDS services may include business management and entrepreneurship training, business plan development, marketing strategy, human resource management, financial systems and bookkeeping. It may also include tailored coaching and mentoring support depending on the needs and the capacity of the SMEs.

The consultancy service for BDS needs assessment selection has been completed. The Consultant is expected to submit its inception report by the end of December 2018. Procurement of the provision of BDS services is at RFP stage and is expected to be finalized by May 2019.

Component 4: Project Management, Communication, and Impact Evaluation

Project Management: Both PMT and PIU are fully staffed and functioning well. The PIU is well-equipped with office supplies, furniture, laptops, printers and stationery in place. However, the procurement of a project vehicle faced delays due to unavailability of the required vehicles in the local market and subsequent delays and currency changes in processing these procurements through UNOPS.

Monitoring & Evaluation: The recruitment of the External Auditor has been finalized and the audit of the DBE and PIU office started. Monthly, Quarterly and IFRS reports have been submitted in time to stakeholders and the World Bank per schedule. Staff salaries and other facilities are performed on time. Training on how to register clients has been provided for DBE branches and for PFIs. Soon, the PIU will be responsible 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 provided 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 baseline survey, including 784 lease-financed SME profile, was completed as planned, and a baseline report has been prepared by EDRI. A second round of data collection will commence in early 2019. A survey of over 1,400 workers in the SMEs was also completed, and EDRI and the World Bank are now exploring potential firm-level experiments with the sampled workers to be completed by March 2019.

Financial Management (FM): The supervision mission reviewed the Project in the areas of budgeting, accounting, internal control, funds flow, financial reporting and external audit. Based on the supervision of the Project by entities visited by the mission, the mission concluded that the FM system provides reasonable assurance that the project resources are being used for the intended purposes.

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

PDO Indicators by Objectives / Outcomes

To increase access to finance for eligible SME in Ethiopia.				
▶ Volume of Financial Support to SMEs under the credit facility (Amount(USD), Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	60,314,444.21	71,800,000.00	269,000,000.00
Date	17-Aug-2016	25-May-2018	29-Nov-2018	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	137.00	224.00	2,152.00
Date	17-Aug-2016	25-May-2018	29-Nov-2018	31-Aug-2022
▶ Portfolio Quality under the credit facility (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	5.00	5.00
Date	17-Aug-2016	10-Nov-2017	29-Nov-2018	31-Aug-2022



►Beneficiaries reached with financial services (Number, Corporate)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	224.00	2,152.00
Date	17-Aug-2016	--	29-Nov-2018	31-Aug-2022

Intermediate Results Indicators by Components

Financial Services to SMEs				
►Number of Loans/ Leases disbursed to SMEs under the credit facility (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	137.00	224.00	3,873.00
Date	17-Aug-2016	25-May-2018	29-Nov-2018	31-Aug-2022
►Collateral Registry Established (Yes/No, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	No	No	Yes
Date	17-Aug-2016	25-May-2018	29-Nov-2018	31-Aug-2022

Enabling Environment for SME Finance				
►Insolvency Diagnostic Completed (Yes/No, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	No	No	Yes
Date	17-Aug-2016	25-May-2018	29-Nov-2018	31-Aug-2022
►Report drafted on citizen engagement survey (Yes/No, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	No	No	Yes
Date	20-Apr-2016	25-May-2018	29-Nov-2018	31-Aug-2022

Business Development Services for SMEs				
►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	25-May-2018	29-Nov-2018	31-Aug-2022

Data on Financial Performance

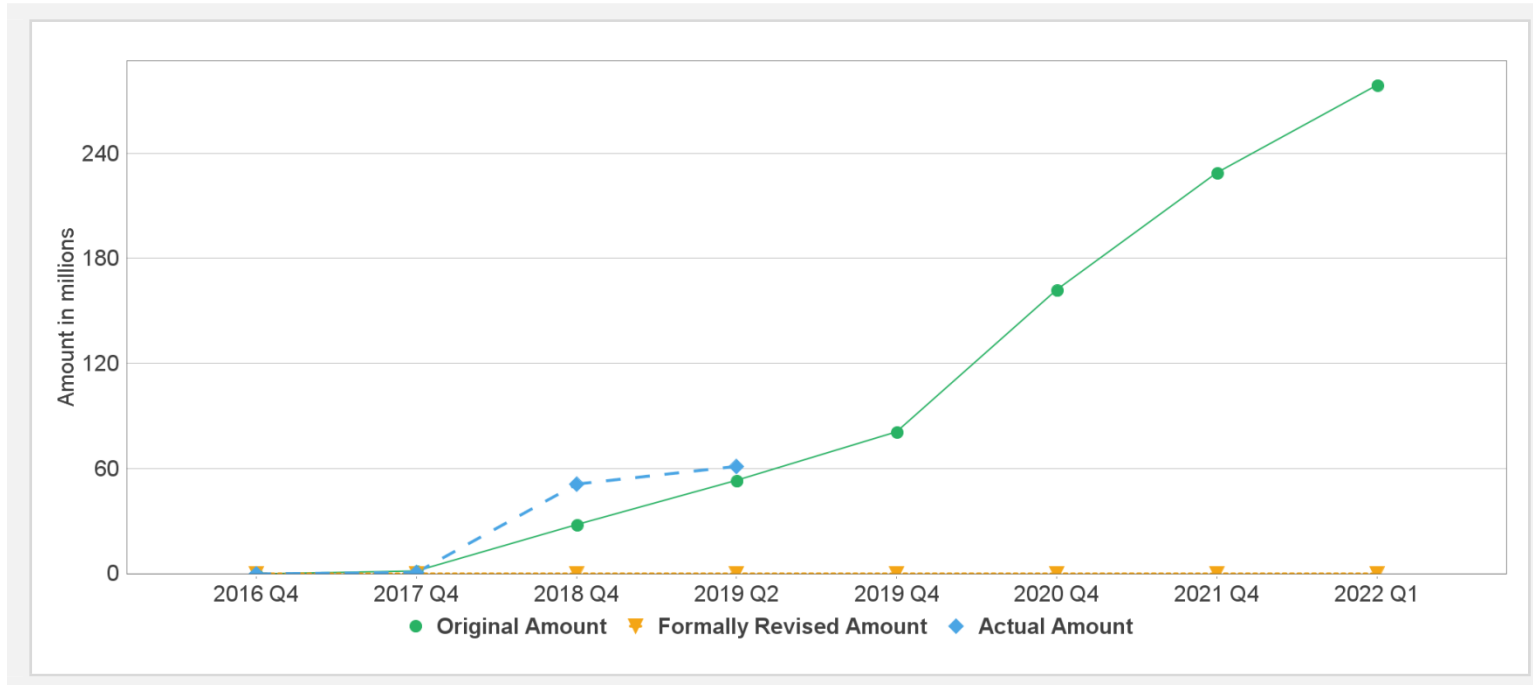
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P148447	IDA-57930	Effective	USD	200.00	200.00	0.00	61.01	140.91	30%

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.
