



## Ethiopia: SME Finance Project (P148447)

AFRICA | Ethiopia | Finance, Competitiveness and Innovation Global Practice |  
IBRD/IDA | Investment Project Financing | FY 2016 | Seq No: 7 | ARCHIVED on 08-Jun-2019 | ISR37313 |

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: 14-Nov-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	● Moderately Satisfactory	● Satisfactory
Overall Implementation Progress (IP)	● Moderately Satisfactory	● Satisfactory
Overall Risk Rating	● Substantial	● Substantial

### Implementation Status and Key Decisions

The Implementation Support Mission for SMEFP is ongoing and will be completed by June 7, 2019. The Mission will liaise with officials from the Ministry of Trade and Industry (MoTI), Federal Small and Medium Manufacturing Industries Development Agency (FESMMIDA), Development Bank of Ethiopia (DBE), the National Bank of Ethiopia (NBE), the UK Department for International Development (DFID)-funded Private Enterprise Program for Ethiopia (EP/WEDP), and European Investment Bank (EIB).

#### Component 1: Financial Services to SMEs

The objective of Component 1 is to establish 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 (EIB) in the amount of EUR70 million.

**As of 4 November 2019, the project disbursed 87.5 million from IDA and EURO 20 million from EIB allocation (a total of \$110 million) – nearly 50% above the end year target of \$75 million disbursement.** Out of the total withdrawn amount, DBE has allocated \$88 million for direct leasing while the remaining \$23 million has been allocated for working capital loan. For lease financing, DBE has opened Letter of Credit (L/C) for 273 SMEs of which 182 transactions are fully completed (equipment delivered, and final agreement signed) while the remaining 91 transactions are at production, transportation and custom clearance stages. Since the last ISM, an additional \$41 million has been disbursed and 138 lease transactions have been fully completed (3 times the lease transactions completed during the last ISM). Though there is still ample room for improvement in speeding up lease transaction process, the process has improved significantly over the last six months as witnessed in the increase in the number of completed transactions during the last six months.

**Though the project's overall disbursement is satisfactory, fund allocation has been skewed towards lease financing while working capital loan did not pick up to the level expected.** So far, DBE has disbursed \$13 million to PFIs from the working capital loan window which accounts to merely 12% of the total fund withdrawn by DBE. With the aim of expediting the working capital loan disbursement and in line with recommendations from the last ISR, the project took the following actions: (i) reallocated funds set aside for each participating financial intermediary (PFI) from low-disbursing PFIs to fast-disbursing PFIs; (ii) certified additional 14 banks and microfinance intermediaries to participate in the project; (iii) changed World Bank's disbursement method to DBE from statement of expenditure (SOE) to Interim Financial Report (IFR) basis, and (v) allowed disbursement to PFIs upon presentation of a list of approved loans instead of SOE basis. However, the recent increment of DBE's wholesale lending rate to PFIs from 7% to 9% created a huge disincentive for PFIs to take a loan from DBE. The mission agreed that this increase in interest rate is unjustified for many reasons: (i) setting the project financing at 9% which is above the cost of financing for banks (proxied by minimum interest rate on saving which is 7%) is unattractive to PFIs, (ii) the interest spread for DBE is unreasonably high as DBE gets the loan on IDA terms and passes it to banks at 9%, (iii) with a repayment rate of nearly 100% by PFIs, the credit risk of this wholesale financing from this project is almost zero – and hence, the whole sale financing rate needs to reflect the credit risk, (iv) though DBE has mentioned increase in its cost of financing as a justification for increase in wholesale lending rate, this is not the case for SME Finance project – as the cost of financing remains the same. Considering the facts above, the mission will discuss with DBE's management to revise the decision on the raise for the wholesale financing rate for PFIs.

#### **Component 2: Enabling Environment for SME Finance**

**The objective of Component 2 is to improve the enabling environment for facilitating SME finance in Ethiopia.** This would require the following: (i) creation of a collateral registry 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 movable collateral registry law has been approved by the the Council of Ministers and it is awaiting ratification of the Parliament. In parallel, procurement for hardware and software for collateral registry is being processed through SME Finance Project.

**Insolvency regime:** The Attorney General office is undertaking a revision of the Commercial Code which includes the Bankruptcy law. With IFC's lead on the subject, the project is assisting the insolvency drafting team in finalizing the Bankruptcy Code in line with best practices. Ethiopia's insolvency regime is currently outdated and lacks many modern practices, such as an effective reorganization framework for restructuring corporate debt, a priority for post-commencement financing and a modern regime for regulating insolvency practitioners. These gaps in the legal regime suggest that once a business experiences financial distress, there is a small chance that it will survive as a going concern and continue to provide value into the economy. The Doing Business 2018 Resolving Insolvency data shows that creditor recovery is currently less than 30 percent of the loan at 27.7 cents on the dollar, meaning that creditors have little incentive to lend, thereby stifling entrepreneurship. Moreover, without efficient recovery mechanisms for creditors, financial institutions face the risk of mounting NPLs in the system, which can potentially reach levels that can threaten financial sector stability.

#### **Component 3: Business Development Services to SMEs**

**The objective of Component 3 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 BDS needs assessment report is completed.** The needs assessment report will inform the design and implementation of the actual BDS delivery. The selection for private BDS providers is also at its final stage, awaiting award approval by the PIU. The project has also provided TOT training for 272 experts coming from 21 center of excellence Technical and Vocational Education Centers (TVET).

#### **Component 4: Project Management, Communication, and Impact Evaluation**

**Project Management:** Monthly reports, and Quarterly IFRS 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 the overall project monitoring and evaluation, including using the database to generate reports, identify trends, and respond to client needs.

**Impact Evaluation:** The European Union (EU) provided funding for the impact evaluation component of the project. The impact evaluation activities are being carried out by the Ethiopian Development Research Institute (EDRI) and the World Bank. The baseline survey, including 784 lease-financed SME profiles, was completed, and a baseline report has been prepared. A second round of data collection is being done. A survey of over 1,400 workers in the sampled SMEs was also completed, and EDRI and the World Bank are now exploring potential firm-level experiments with the sampled workers.

## 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	● 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	71,800,000.00	71,800,000.00	269,000,000.00
Date	17-Aug-2016	29-Nov-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	224.00	224.00	2,152.00
Date	17-Aug-2016	29-Nov-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	5.00	5.00	5.00



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

### Intermediate Results Indicators by Components

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

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

<b>Business Development Services for SMEs</b>				
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► 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	29-Nov-2018	29-Nov-2018	31-Aug-2022

**Data on Financial Performance**

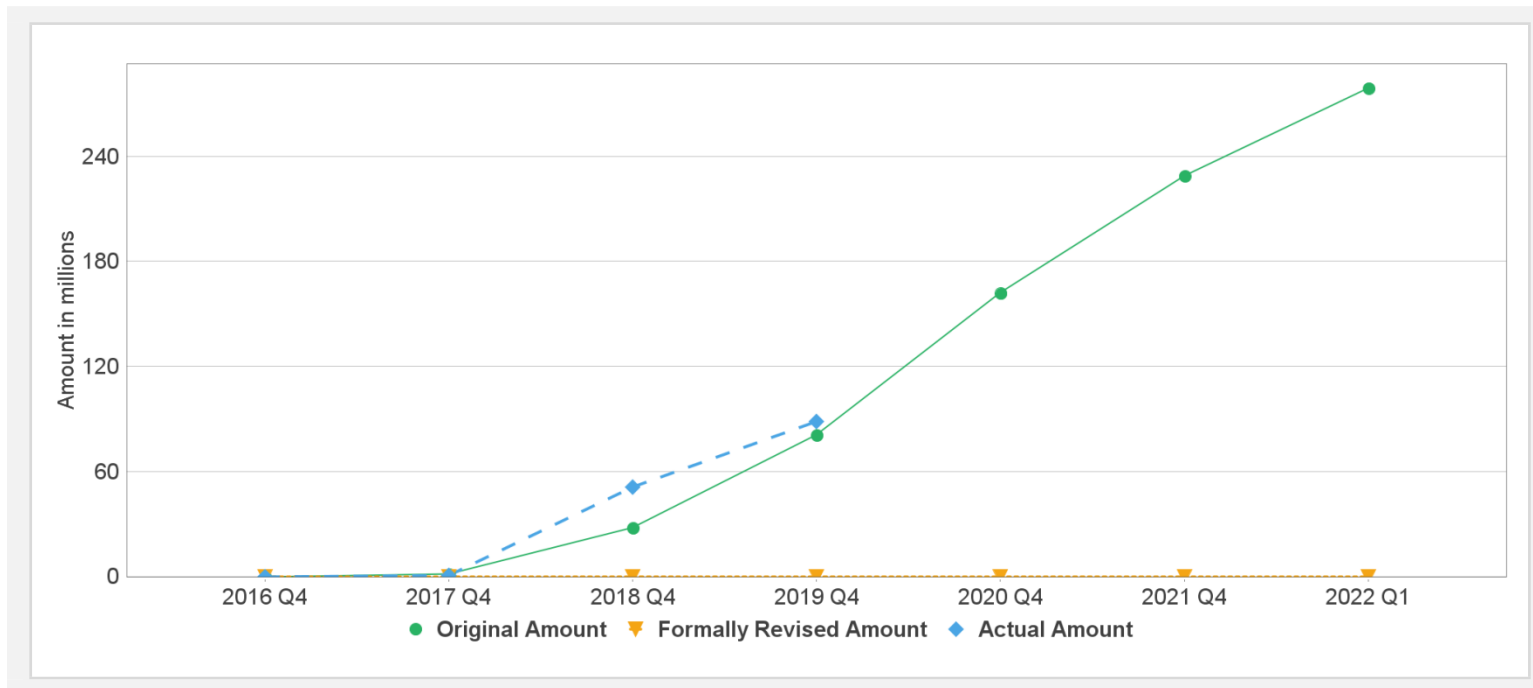
**Disbursements (by loan)**

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P148447	IDA-57930	Effective	USD	200.00	200.00	0.00	88.58	114.10	44%

**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**





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## Restructuring History

Level 2 Approved on 20-Sep-2017

## Related Project(s)

There are no related projects.

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