Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 23-Feb-2021 | Report No: PIDISDSA30350

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ethiopia	P175045	Ethiopia Small and Medium Enterprises Finance Project - Additional Finance	P148447
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Ethiopia: SME Finance Project	AFRICA EAST	26-Feb-2021	29-Mar-2021
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Finance, Competitiveness and Innovation	Investment Project Financing	Ministry of Finance	National Bank of Ethiopia, Development Bank of Ethiopia, Federal Small and Medium Manufacturing Industry Promotion Authority

Proposed Development Objective(s) Parent

The project development objective is to increase access to finance for Eligible Small and Medium Enterprises in the Recipient's territory.

Proposed Development Objective(s) Additional Financing

The project development objective is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.

Components

Financial Services to SMEs
Enabling Environment for SME Finance
Business Development Services for SMEs
Project Management, Communication and Impact Evaluation

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	300.00
Total Financing	300.00

of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

Private Sector Investors/Shareholders

Equity	Amount	Debt	Amount
		IFI Debt	200.00
		IDA (Credit/Grant)	200.00
		Commercial Debt	100.00
		Unguaranteed	100.00
Total	**0.00**		**300.00**

Payment/Security Guarantee

Total	**0.00**

Environmental Assessment Category

F-Financial Intermediary Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

A. COUNTRY CONTEXT

1. **The outbreak of the Coronavirus Disease 2019 (COVID-19) pandemic threatens Ethiopia's gains in growth and poverty reduction, with micro-enterprises and SMEs expected to be among the significantly affected as a result of the economic slowdown.** The first confirmed case of COVID-19 in Ethiopia was reported in March 13, 2020. However, the effect of the pandemic started to be felt around the beginning of the year with sharp declines in textile exports, declining travel and transport services and later on a decline in remittance. As the pandemic started to intensify, the Government of Ethiopia (GoE) declared a state of emergency under Article 93 of the constitution on April 8, 2020. Since then, the spread of COVID-19 has increased significantly in Ethiopia and negative economic impacts increased rapidly. The economic and social impact of COVID-19 in Ethiopia is expected to be significant and prolonged, and authorities are facing an unanticipated financing gap of 1.5 percent of GDP (about US$1.5 billion) in FY21. An estimated 1.4 million jobs[1], accounting for 19 percent of current employment, are threatened due to the crisis.

2. **Results from the World Bank high frequency phone survey[2] shows that COVID-19 and related containment measures have substantially impacted firms' operations.** At the onset of the pandemic, over 42 percent of businesses reported that they completely ceased operations and 37 percent of businesses reported no revenues in the last complete month (March or April). However, companies have gradually reopened, with about half of the firms surveyed in Addis Ababa being operational on a full-time basis by mid-July. Nonetheless, less than half of firms in the sample are opened full-time, and over one-quarter of businesses remained closed. COVID-19 transmission channels to the economy have included supply chain disruptions, decline in demand, depressed commodity prices, decline in remittances as well as restrictions in global trade, travel and tourism. Restricted movement of workers and closure of marketplaces are other channels through which the pandemic and related containment measures have affected firms. At the same time, as banks turned progressively risk averse, liquidity for firms, especially SMEs, has tightened considerably. While macroeconomic conditions are expected to rebound in the medium term—the International Monetary Fund (IMF) has characterized the impact of the pandemic on Ethiopia's economy as "large but temporary"[3].

3. **The success of the HGER is predicated on a more private sector led model of growth wherein the emergence of a strong SME sector that can boost job creation is vital and has become all the more important in the context of COVID-19.** Sustained GDP growth in recent years has not been matched by similar gains in economic productivity, and formal employment is struggling to accommodate the close to two million youth that enter the job market each year. With 70 percent of formal jobs in developing countries created by small- and mid-sized firms, according to World Bank estimates, SMEs have a key role to play in expanding employment opportunities. "Building vibrant and growth-oriented SMEs" is therefore one of the pillars of the new *National Plan of Action for Job Creation*, unveiled in October 2019, which seeks to create 14 million[4] new jobs by 2025. Ethiopia's first *National Entrepreneurship Strategy*, presented in August 2019, similarly emphasizes the importance of startups and SMEs to the realization of job-rich growth.

B. SECTOR CONTEXT

4. **With private credit to GDP ratio of 13 percent, Ethiopia's private sector was already highly credit constrained.**

In general, the Ethiopian financial sector is shallow and is characterized by low levels of intermediation. But the financial constraint is even more pronounced for SMEs. A World Bank study[5] found the 'missing middle' phenomenon at work in Ethiopia whereby SMEs are found to be more credit constrained than either micro or large enterprises. In particular, SMEs in Ethiopia perform much worse than large firms across a host of financing indicators. SMEs are much more likely to be rejected for loans, and less likely to have a loan, line of credit, or overdraft facility. These firms are also more likely to avoid loan applications all together due to high collateral requirements. Indeed, other surveys reveal that SMEs in Ethiopia are some of the most credit-constrained in the world. According to a WBG survey, the financing gap for SME's in Ethiopia is estimated to be approximately US$3.9 billion, 2.4 times the current level of SME lending. The Enterprise Survey (2015) also reveals that only 11.3 percent of small enterprises in Ethiopia have access to working capital loan from banks, compared to a global average of 26 percent and Sub Saharan Africa's average of 22 percent.

5. **The already acute credit constraint faced by SMEs has been further compounded by the COVID-19 pandemic as financial institutions' turn risk averse and/or skew their lending even more towards larger firms.** As a result, starved of the liquidity they need, viable SMEs in Ethiopia are struggling to keep afloat. This affects not only their growth trajectory and expansion but also their ability to maintain employment; and more broadly, makes Ethiopia's path to economic recovery more difficult.

6. **Women owned SMEs are especially disadvantaged in accessing finance, primarily because they have less access to collateral*.*** According to the Enterprise Survey (2015), the number of female managers who use bank financing for investment purposes is merely eight percent as compared to 13 percent for their male counterparts in Ethiopia and 25 percent for female managers in other African countries. Similarly, the ratio of female managers who consider access to finance a key obstacle to growth (49 percent) is much higher than the ratios for both male managers (19 percent) and female managers in Africa (27 percent). Limited access to collateral is crucial in this context, with most financial institutions in Ethiopia only considering land titles and fixed assets—chiefly, buildings—as collateral for business loans. However, unequal access to property rights means that women are much less likely to own and control these assets than their male counterparts. According to a recent study by the Gender Innovation Lab (GIL), women are not only less likely to own land than men but also own plots that are on average 30 percent smaller[6]. What is more, only half of those women who do own land have their name on a title deed. In a context of high collateral requirements, this means that a large section of women entrepreneurs is shut out of formal financial markets.

7. **Ethiopian SMEs also confront challenges related to access to markets, infrastructure (clusters networks) and skills gap.** A background study[7] for this intervention by the WBG in August 2020 identified that SMEs' production processes coupled with lack of quality business management trainings affect product quality and productivity and

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[1] Estimates from the Jobs Creation Commission based on expected impacts in economic sectors.
2 https://hubs.worldbank.org/docs/ImageBank/Pages/DocProfile.aspx?nodeid=32490423
3 Federal Democratic Republic of Ethiopia, IMF Country Report No 20/150, May 2020.
4 pre COVID-19 target
[5] World Bank, 2014. "SME Finance in Ethiopia: Addressing the Missing Middle Challenge"

[6] World Bank. 2019. Ethiopia Gender Diagnostic Report: Priorities for Promoting Equity. World Bank, Washington, DC
[7] August 2020, Background paper, Addressing Challenges of Ethiopian SMEs' Access to Markets and Production Facilities

their access to international market. Use of information technology tools for accessing markets was observed to be very low. Lack of access to local quality assurance services is also a bottleneck for exporting quality products. Government and private sector procurement procedures often exclude SMEs from participating in bids, thereby narrowing down their market opportunities. SMEs are also constrained by limited business information which otherwise could have improved their business decisions. Lack of adequate production facilities is chronic, leading to overcrowded production sheds – in part this is a reflection of inadequate government policy attention to developing SMEs. The study also identified that there is poor management of allotment of working premises and overall coordination failure among different government bodies.

8. **Addressing these myriad development challenges and creating viable entrepreneurs requires a well-functioning business ecosystem through the expansion of market access, provision of business development services and building a robust SME network.** The policy dialogue on building successful entrepreneurial ecosystem requires attention to three focus areas: scaling up SME firm capability, building business-to-business relationships, and getting the institutional and policy framework right. Simultaneously, targeted approaches are needed to address SMEs' challenges based on effective diagnosis of needs and the market failures to be addressed.

9. **Ethiopia has immense potential for broadening access to market for SMEs through e-commerce,** relevant not only as a response to COVID-19, but also in terms of building for the markets of the future**.** Digital economy diagnostics indicate that Digital Financial Services and e-commerce have high potential to create direct and indirect jobs in Ethiopia. A study commissioned by the World Bank in February 2020 shows that there are 68.3 million mobile phone users and 17.8 million active internet users. In addition, the electronic transaction law enacted in March 2020 has created an enabling regulatory environment for businesses to operate online. The Digital Transformation Strategy underlines the importance of strengthening the capacity of Ethiopian Postal Services (EPS) to serve domestic and cross-border e-commerce. An efficient e-commerce platform can play a big role in serving the untapped local market; it will enable SMEs and large enterprises to sell and move their products and services across borders.

I. Description of Additional Financing

A. PDO and Project Beneficiaries

10. **Project Development Objective:** The project development objective is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.

11. **PDO Level Results Indicators:** The progress towards the PDO will be measured by the following indicators: (a) Volume of Financial Support to SMEs under the credit line and derisking facility; (b) Number of SMEs reached with Financial Services under the credit line and derisking facility, (c) Number of SMEs whose capabilities are built through BDS; (d) percentage of women owned SMEs benefitting from the credit line, derisking facility and BDS, and (d) Portfolio Quality under the credit facility. Proposed intermediate indicators are highlighted in the Results Framework Table under Section VIII. The intermediate indicators are gender disaggregated as much as feasible.

12. **Project Beneficiaries:** The project beneficiaries will be eligible SMEs. In line with the definitions used by Ministry of Trade and Industry, SMEs are defined as firms that employ between 6 to 100 employees. For the purpose of this project, the number of employees includes both permanent and temporary workers. The measurement is taken by annually averaging the number of employees.

B. Project Description

13. **This AF aims increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic**. Activities supported by additional financing will build on SMEFP's current project objective and activities. The PDO, project components and implementation arrangements will remain materially the same.

C. Components

14. **As in the parent project, activities for the additional financing will be structured under three mutually reinforcing components:** (i) Component 1: Financial Services to SMEs; (ii) Component 2: Enabling environment for SME Finance; and (iii) Component 3: Business Development Services (BDS) to SMEs. These components are fully aligned with the World Bank's Jobs and Economic Transformation framework as well as its approach to the COVID-19 response[8]. The liquidity enhancement intervention will entail a relief and restructuring response as well as supporting resilient recovery by taking advantage of new opportunities to build a more sustainable, inclusive and resilient future in a world transformed by the pandemic . Strengthening the enabling environment and BDS support will support recovery through enhancing firm capability, market access and modernising business processes. Digital innovation and women economic empowerment will be an underlying and cross-cutting element across the three components. These interventions are particularly relevant to the immediate COVID-19 response even while they are also enabled to support medium-term economic recovery through building the productive base of the country.

Component 1: Financial Services to SMEs

15. **The objective of the first component is to provide liquidity support to SMEs through a credit line and derisking facility, including potentially through receivables financing**. The project will target viable/growth-oriented SMEs. The incentive for targeting viable SMEs (and excluding zombie firms) will be captured in the eligibility criteria to be defined in the project operations manual and are also inbuilt in the design of the financial instruments - PFIs share risks and rewards as the credit risk from the loan is borne by the respective financial institution. Technical assistance on credit appraisal including use of alternate sources of data to assess risk, past credit history, sector analysis will be supported (see subcomponent 1c below).

16. **Subcomponent 1a: SME lending.** This subcomponent will channel IDA funds mainly for working capital loan and leasing finance for on lending to eligible SMEs. DBE will provide lease finance to SMEs both directly through its regional branches and indirectly through eligible lease companies operating in the country. DBE will also provide wholesale finance to commercial banks and MFIs for on-lending to eligible SMEs. To encourage on-lending to women owned SMEs which proved to be a viable business segment, DBE will incentivize PFIs by

[8] World Bank Group. 2020. *Saving Lives, Scaling-up Impact and Getting Back on Track: The World Bank Group COVID-19 Crisis Response Approach Paper*

making interest rate discounts on the portion of funds channeled to women entrepreneurs. Additionally, coordination arrangements to target graduates of the WEDP project will be facilitated. PFIs will be required to match a certain portion of their funding from their own source there by leveraging additional private capital for on-lending to SMEs. DBE will assume the risk of on-lending to PFIs and will determine interest rates and other terms for the wholesale finance. Overall, the wholesale pricing strategy should serve the purpose of attracting eligible PFIs to participate in the scheme at a sufficient margin, while enabling the provision of more affordable finance to SMEs. The PFIs will assume the full credit risk for their SME portfolio under the project and will be free to determine the loan terms of the sub loans.

17. IDA funds will be channeled as senior debt though a small part maybe piloted based on market need, as junior debt or other innovative loan products to crowd in market financing. The product innovations to be explored are aimed at better pricing for SMEs, unlocking the supply potential of external financing[9] for Ethiopia's financial sector and through it support innovation and knowledge transfer benefiting the SME finance ecosystem.

18. **Subcomponent 1b - Derisking Facility (DRF):** This subcomponent will set up a facility to share risks associated with new lending to SMEs especially given heightened economic uncertainty driven by COVID-19. A DRF will lower credit risk by absorbing a portion of the lender's losses on eligible loans made to SMEs in case of default. Such derisking will help increase lender appetite for SME financing and reduce the requirement of collateral. As a development additionality, the DRF will incentivize superior data monitoring and reporting standards, safeguards and gender practices in SMEs through establishing clear sub-loan eligibility criteria for PFIs. The design of DRF aims to optimize leverage with sustainability of the facility. The DRF is being designed using a learning and piloting approach for future scalability. The DRF design is guided by the Principles for Public Credit Guarantee Schemes for SMEs which is developed by the World Bank and FIRST Initiative[10].

19. Subcomponent 1c - Technical Assistance: This subcomponent will provide technical assistance aimed at supporting PFIs in designing, piloting and rolling out asset backed lending products (such as receivables financing, cash flow based lending, factoring, reverse factoring, channel financing, risk sharing products, as well as supporting them towards information based credit decision making (including via use of alternate sources of data) to successfully expand their outreach to the target SMEs and reduce cost of financing. The technical assistance program is designed to complement and reinforce project implementation and support financial institutions – DBE and PFIs as applicable - develop and roll-out a broad set of asset-backed lending (ABL) and risk sharing products and strengthen related risk management systems and capacity. It will also build awareness and capacity of credit departments at financial institutions to integrate credit information including credit bureau-supplied information into lending decisions.

Component 2: Enabling Environment for SME Finance

[9] From international financial institutions that could include IFC.
[10] The World Bank and FIRST Initiative. 2015. Principles for Public Credit Guarantee Schemes for SMEs. Washington, DC: World Bank.

20. **With the financial and technical support of the parent project and IFC advisory, Ethiopia introduced the movable property collateral registry system in early 2020**. Moreover, another World Bank Project[11] from ten years ago financed the establishment of a credit reference bureau (CRB) and for the past five years IFC has been providing technical assistance to strengthen the existing credit information system. However, the credit information system is far from optimal and more needs to be done to ensure financial institutions utilize the infrastructure to inform their credit decisions as well as to expand range of products and services. Hence, by leveraging the financial infrastructures built by WBG, this component aims to strengthen financial institutions utilization of credit information to inform credit decisions as well as to support the development of new financial products, and spur SME financing.

21. **Subcomponent 2.1 – Strengthening the credit information systems and ensuring utilization by financial institutions[12].** The current credit information system in Ethiopia is operating sub optimally as evidenced by low coverage, limited referencing perimeter, and lack of value-added products. The system is also fraught with serious operational, human capital and IT challenges which has impacted on the integrity of data and the system efficiency and reliance placed on the system by credit providers. Against this background, this subcomponent aims to complement the ongoing and upcoming IFC advisory work by supporting the digitization phase of the credit reporting system by financing the development of an integrated digital lending platform that has lending, scoring and data submission capabilities**.** This AF, complemented by IFC advisory services, will: (i) provide TA to NBE to enhance the regulatory, legal and supervisory framework that underpin the establishment and supervision of a private credit bureau, (ii) support the development and deployment of value-added products and services such as scoring, monitoring, bench marking and bulk inquiry functionality, and (iii) capacitating MFIs (with technical assistance and digitization), and (iv) support the modernization of the NBE Credit Bureau to make it a tool that can support the institutional mandate for the Central Bank including data driven policy formulation, micro and macroprudential supervision.

22. **Subcomponent 2.2: Development of Movable Asset Based Lending.** Though the legal and regulatory framework for electronic movable collateral registry system is in place, much remains to be done to ensure financial institutions fully utilize the framework to develop range of asset-backed lending products and services The existing movable properties security rights legal and institutional foundations can be used to develop and roll out asset backed financing products which are aimed at reducing the high loan collateralization rates. In light of this, this subcomponent will identify and fill gaps in the movable asset-based lending ecosystem including developing the industry and market. In general, the ecosystem consists of three main areas: (i) development of new financial products, (ii) development and deployment of electronic platforms and (iii) movable property valuation expertise.

23. **This AF, complemented by an IFC technical assistance project which is being rolled out concurrently with this**

11 Financial sector capacity building project (P094704)

12 With a technical assistance from IFC, NBE migrated the CRB application to a new platform with a disaster recovery facility improving the overall technical infrastructure. IFC has also been working with NBE to improve data quality and coverage of the bureau by integrating MFIs; increasing coverage from a mere 0.2 percent of the adult population to more than 5 percent

program, will support the development of movable asset-based lending industry which will include the development of financial products such as supply chain financing platforms, invoice discounting, factoring and reverse factoring, leasing, warehouse receipts financing, which will be informed by the outcomes of a country wide assessment to be conducted first. A portion of the credit line from component 1 will be allocated for new Movable Asset Based Lending (MABL) products targeting SMEs and the program will also strengthen the supporting technical infrastructure and electronic platforms necessary to deploy these new financial products. This window will also support development/deepening of secondary markets for movable assets by providing the necessary technical infrastructure, e.g. electronic auctions or online liquation platforms to dispose of assets which have been repossessed in the event of borrower default.

Component 3: Business Development Services to SMEs

24. **This component aims to build firm capabilities through selected value chains and broaden SME's access to market by implementing a firm capability-building program and e-commerce platform in Ethiopia.** The program targets three priority sectors of Ministry of Trade and Industry (MoTI) (Textile/garments, agro-processing and furniture) and provide value chain support for participating SMEs. Beneficiaries of SMEs in Component 1 and 2 will also be included in the support under component 3. The program brings international best practices[13] considering lessons learned from the experience to date for improving SME's access to local and international markets – including supplying to Industrial Parks.

25. Sub-component 3.1: Building firm capability. Building on the BDS component of the parent project, this subcomponent aims to support SMEs and their linked suppliers in the targeted sectors with the provision of tailored business advice and technical trainings. The business advice will help build capacities of SMEs and their linked suppliers to develop bankable business plans, improve quality of financial statements and records, better manage risks, business management, entrepreneurship, marketing strategy and human resource management. Participating SMEs will be trained on digital tools that improve their record keeping, financial analysis, …etc and boost their online presence. The business advice will also include technical skills training on new product development, production efficiency, technology adoption, …etc.

26. **Sub-component 3.2: Increasing access to market.** This sub-component will support participating SMEs in the value chain on business matchmaking to enable a long-term business-to-business relationship with selected international buyers or local suppliers of inputs. A Business Information Center that provides access to business information to all SMEs & their international/local buyers in Ethiopia will be established at FeSMMIPA. By building the capacities of federal and regional investment and trade support institutions, export promotion agencies and business diplomacy, the program will enable the government to provide better services to SMEs in the targeted sectors.

27. Sub-component 3.3: Broaden access to market through digital solutions: This sub-component will establish a web-based e-commerce platform that will broaden access to market for beneficiary SMEs. Other businesses in Ethiopia will also be able to utilize this e-commerce platform for selling their products online. As part of the project's COVID-19 response, the e-commerce platform will support SMEs to increase their market opportunities through digital means. The products that are transacted on the e-commerce platform can be physically distributed using the networks of Ethiopian Postal Services (EPS) which already has more than 1,000

[13] Draft document presented on Decision Meeting on October 2020; CMC SME Operational Guidelines: Improving WBG Interventions in Support of Small and Medium Enterprises

branches in Ethiopia. These branches and existing networks will be leveraged by the project for expanding market access for SMEs by enhancing volume and quality through a low marginal cost.

Component 4: Project Management, Communication and Impact Evaluation

28. **The objective of the fourth component is to support overall coordination of project activities and conduct impact evaluation.** The two main implementers of the project will be DBE and FeSMMIPA. The Project Management Team (PMT) at DBE and the Project Implementation Unit (PIU) which is housed at FeSMMIPA will be strengthened to effectively manage project activities. Like the parent project, DBE will be responsible for managing the credit facility under component 1 while the PIU will have the mandate of overall project's coordination and direct responsibility of components 2, 3 and 4. NBE has assigned a focal person that will act as the key technical referent of the PIU for market infrastructure and regulatory reform related activities.

E. Implementation

Institutional and Implementation Arrangements

SMEFP's additional financing will build on the existing project infrastructure and institutional capacity developed through the parent project. The SMEFP Project Management Team (PMT) housed at DBE and the Project Implementation Unit (PIU) housed at FESMMIPA have demonstrated their ability to successfully implement project activities and achieve project targets over the past five years. The SMEFP operational manual serves as a guide for overall project implementation and will continue to be a valuable resource in the implementation for this additional financing.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

SMEFP AF will be implemented country-wide, and its geographic coverage will remain the same as the parent project. The PDO, project components and implementation arrangements will also remain materially the same. The major change for the AF is the scale of operation, i.e. the volume of disbursement and the target number of SME beneficiaries, which will be increased. Moreover, to mitigate the negative impacts of COVID-19, the additional financing will expand the target sectors beyond the four target sectors of the parent project: manufacturing, agro-processing, tour and construction sectors. Generally the AF will support relatively small leasing and working capital loans with low potential negative environmental and social risks and impacts. However, there may be some SMEs business activities in which the environment and social risk and impacts may potentially be significant which require commensurate environmental and social risk assessment, and the development and implementation of apprpriate mitigation measures. The physical setting is relevant for safeguard analysis as some of the SMEs subprojects may involve capital investment or civil works with potential negative environmental and social risks and impacts. Any potential negative environmental and social impacts will be avoided or mitigated through the screening process included in the ESMS.

G. Environmental and Social Safeguards Specialists on the Team

Tamene Tiruneh Matebe, Environmental Specialist
Samuel Lule Demsash, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The parent project triggered OP/BP 4.03 but this was reflected in the ISDS otherwise. This is corrected in line with the suggestions from RSA Team.
Performance Standards for Private Sector Activities OP/BP 4.03	Yes	The parent project triggered OP/BP 4.03 but this was reflected in the ISDS otherwise. This is corrected in line with the suggestions from RSA Team.
Natural Habitats OP/BP 4.04	No	-
Forests OP/BP 4.36	No	-
Pest Management OP 4.09	No	-
Physical Cultural Resources OP/BP 4.11	No	-
Indigenous Peoples OP/BP 4.10	No	-
Involuntary Resettlement OP/BP 4.12	No	-
Safety of Dams OP/BP 4.37	No	-
Projects on International Waterways OP/BP 7.50	No	-
Projects in Disputed Areas OP/BP 7.60	No	-

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

As the target beneficiaries for the project are small and medium enterprises (SMEs), the project will support relatively small leasing and working capital loans with relatively low potential environmental and social risks and impacts. The overall risks of project implementation are moderate and manageable with mitigation and monitoring mechanisms in place. Implementation of activities under the AF will build on the effective project structures and implementing

partners of the SMEFP to mitigate risks and achieve project targets.
Most of the beneficiaries for the parent project are small manufacturing or agribusiness companies with an average employee size of about 20. Monitoring visits conducted for the parent project reveal that these firms do not pose significant environmental or social risk. The SMEFP AF activities will not involve new or modified activities expected to have significant environmental or social risks or impacts or raise the current safeguard category of the overall project. Despite low expected risks, mitigation measures will be further strengthened to address the potential environmental and social risks and impacts in accordance with the requirements of the World Bank Performance Standards (OP 4.03). The project activities could potentially have only limited adverse environmental and social risks and impacts that are expected to be generally site specific and minor, largely reversible, and readily addressed through the agreed mitigation measures.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Activities supported by additional financing will build on the original project objective and activities. The PDO, project components and implementation arrangements will remain materially the same. The geographic coverage of the project will also remain the same. The major aspect that will be changing for the AF is the scale of operation. More specifically, the volume of disbursement and the target number of SME beneficiaries will be increased in response to the additional finance. Moreover, given that the negative impacts of COVID-19 are sector-agnostic and in line with the guidance during the decision meeting, the additional financing will expand the target sectors beyond the four target sectors of the parent project: manufacturing, agro-processing, tour and construction sectors. The ineligible sectors will be highlighted in the exclusion list of the project operations manual.

The safeguards risk for the parent project is rated ‘Moderate’. The additional finance will not involve new activities with significant environmental and social risks, or impacts that can adversely affect the current safeguard risk category of the project. The task team has not identified any potential indirect and/or long term impacts due to the additional financing activities in the project area.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
The task team has identified three key actions to help avoid or minimize adverse impacts due to project activities. The first is to update the current ESMS in the context of Covid 19. Secondly, the project will work to further strengthen the screening of subprojects for environmental risks through consultations with the regional Environment, Forest and Climate Change Commission (EFCCC) on the project’s existing screening processes. The PIU will also explore involvement of the EFCCC in training and monitoring visits of the project to ensure sustainable management of environmental risks and impacts in project activities. Finally, the project GRM will be strengthened and expanded to better serve communities by leveraging the existing public grievance management system. This public GRM will be more accessible to local communities, subproject workers and other stakeholders to allow for a clear communication channel for any individual or group of people who believe that they may have been adversely impacted by the activities of SMEFP businesses. The project will also run an advertisement to inform communities to report any safeguards emanating from the projects operations to the already existing hotline number. The GRM system will be used to receive, review and resolve any issues and concerns related to the SMEFP enterprises and participating financial institutions. All grievances will continue to be monitored and presented during the monthly progress review meetings.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower

capacity to plan and implement the measures described.

As part of SMEFP's safeguards requirement, the Development Bank of Ethiopia (implementing agency for the credit line) put in place an ESMS to identify, assess, manage and monitor environmental and social risks of project activities and relevant risk and impacts of SME subprojects under the project. The ESMS is published in the website of DBE. Moreover, the credit facility agreement between DBE and participating financial institutions (PFIs) has safeguard articles that defines responsibilities, eligibility and procedures related to the implementation and monitoring of the SMEFP credit facilities in compliance with all World Bank safeguard policies. Moreover, training on safeguards has been given to PFIs to strengthen their capacity. The AF will provide continuous technical assistance to build the capacity and systems of PFIs.

Moreover, the SMEFP project has a dedicated project implementation unit and robust strategies, structures and tools in place to implement the Environmental and Social Management Framework. Through this system, PFIs, under the supervision of the Development Bank of Ethiopia (DBE), are responsible for ensuring that all subproject activities are screened at the time of loan application using a checklist to determine compliance with ESMS requirements, and to exclude subprojects that are part of the negative list of excluded business sectors deemed to have significant adverse environmental and social risks and impacts.

A grievance redress mechanism (GRM) telephone hotline (6452) is also put in place to address concerns of SMEFP clients and their communities. Calls to the hotline were largely to request information and seek clarification about project services. The PIU staff follow up with clients and other relevant stakeholders to provide more information on the products, terms and processes to facilitate improved understanding and determine additional follow up actions to be taken where applicable.

In the last ISM, SMEFP had an overall safeguards rating of 'Moderately Satisfactory'. DBE has two safeguard specialists to ensure compliance with the World Banks's environment and social safeguard procedures. With the aim of strengthening compliance with ESMS procedures and strengthening monitoring of safeguards issues, the PIU will also hire an additional safeguards specialist under this AF.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The ESMS for the parent project was disclosed in May 2017. DBE will update its ESMS in the context of COVID-19 within 30 days from effectiveness of the project, and redisclose the updated ESMS. DBE will also provide an annual environmental and social performance report ("ESPR") to the Bank. As DBE does not have an experience in preparing ESPR before, this report preparation will initially be supported by an external consultant to be hired by the project till DBE starts to manage the process satisfactorily. The project implementation manual will be updated before project effectiveness.

DBE and FeSMMIPA are the main implementing agencies of the project. DBE already has two safeguards specialists while the PIU which is housed at FeSMMIPA has a plan to hire one safeguard specialist for the additional financing.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Have costs related to safeguard policy measures been included in the project cost?

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

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